Confidential

Premera Blue Cross

Report on Valuation and Fairness of the Proposed Conversion

October 27, 2003

The Blackstone Group®

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I. Executive Summary

REVIEW OF TRANSACTION

The Blackstone Group L.P. ("Blackstone") has been serving as an investment banking advisor to the State of Washington Office of Insurance Commissioner ("OIC") in connection with the OIC's examination of the conversion of PREMERA[(1)] ("Premera" or the "Company") from a private non-profit health service company to a for-profit stock company and the subsequent public offering contemplated by Premera (the "Transaction").

Overview

- Premera is a holding company for two Blue Cross Blue Shield companies, Premera Blue Cross Corp. and Premera Blue Cross Blue Shield of Alaska Corp., and other entities that include PremeraFirst Inc., Washington-Alaska Group Services Inc., MSC Life Insurance Company, LifeWise Health Plan of Washington, LifeWise Administrators Inc., Calypso Healthcare Solutions, LifeWise Health Plan of Oregon Inc., LifeWise Assurance Company, NorthStar Administrators Inc., and Western Benefits Administrators Inc.
- As part of the Transaction, Premera, a non-profit health service company domiciled in the state of Washington, intends to convert to a for-profit stock company. A certain tax-exempt entity (the "Foundation"), a non-profit charitable foundation, will receive 100% of Premera's common stock after the conversion and distribute any proceeds resulting from the Transaction or the sale of its stock in Premera to the Washington and Alaska charitable organizations.
- [Proprietary Material Redacted] Premera intends to execute an initial public offering [Proprietary Material Redacted][(2)]
- While the Company may have considered several other strategic options to the Transaction, Blackstone has evaluated only the proposed transaction and has not considered or assessed any other potential transaction that the Company might be able to pursue.

History

- Premera filed a Form A Statement Regarding the Acquisition of Control of a Domestic Health Carrier and a Domestic Insurer on September 17, 2002, indicating its plans and providing general information. Premera is currently seeking approval from the OIC in order to proceed.
- The OIC is currently examining the Transaction in order to determine, among other things, whether the value that could be received by the Foundation in the conversion is fair and reasonable given Washington statutes.

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(1) PREMERA is the current holding company of Premera Blue Cross, which is authorized to transact business as a health care service contractor. Pursuant to the Transaction, New PREMERA, a taxable entity, will be formed and will own Premera Blue Cross and its subsidiaries.

(2) [Proprietary Material Redacted]

I. Executive Summary

SCOPE OF BLACKSTONE'S WORK

As part of its review of Premera's conversion, Blackstone has done the following:

Documents Reviewed

- Reviewed Premera's audited historical financial statements for the years ended December 31, 1997 – 2002.
- Reviewed Premera's management projections for 2003 – 2007.
- Reviewed Premera's management revised financial outlook for 2003 – 2006.
- Reviewed minutes from meetings of Premera's board of directors for the years 1997 – 2003.
- Reviewed the Form A filing application and the Transaction documents related to Premera's proposed conversion to a for-profit company, dated September 17, 2002.
- Reviewed presentations made by Goldman Sachs, including those dated September 10, 1997, November 12, 1997, September 9, 2000, May 24, 2001, August 8, 2001 and October 6, 2002.
- Reviewed drafts of the other consultant reports, including those of the OIC and the Company.
- Reviewed certain other publicly available and internal information concerning the business, financial condition, and operations of Premera that we believe to be relevant to our inquiry.

Meetings / Conference Calls

- Held discussions on many occasions with both the advisors and the members of management of Premera concerning Premera and its business, operating environment, financial condition, prospects, and strategic objectives.
- Held discussions on many occasions with the OIC and its other consultants, advisors and counsel concerning Premera and its business, operating environment, financial condition, prospects, and strategic objectives.

Other

- Analyzed the market performance of other conversions and initial public offerings in the health insurance industry.
- Analyzed the operating and trading statistics of selected publicly traded managed care companies.
- Prepared and analyzed various sensitivities to management's projections.(1)
- Reviewed such other information, performed such other studies and analyses, and took into account such other matters as we deemed appropriate.

(1) Blackstone, in conjunction with PricewaterhouseCoopers, prepared a sensitivity case to evaluate alternative scenarios regarding projected operating results.

I. Executive Summary

SCOPE OF BLACKSTONE'S WORK (CONT'D)

Blackstone has not:

- Independently verified the accuracy and completeness of financial and other information that is available from public sources and information provided to us by Premera or their respective representatives, or otherwise reviewed by us.
- Made an independent appraisal of Premera's surplus or assets or expressed any opinion as to either the value of such surplus or such assets or the value of the projected income and cash flow expected to be derived therefrom.
- Performed due diligence on Premera's physical properties, sales, marketing, distribution or service organizations, product markets, investment portfolio or on Premera's revised projections submitted to the OIC and its consultants on October 7, 2003 (background detail submitted on October 17, 2003).
- Incorporated Premera's revised financial outlook for 2003-2006 into our analyses.
- Examined or incorporated any findings that may be part of documents deemed to be attorney-client privileged as determined by the Special Master's Decision Following In Camera Review of Documents (Docket No. G02-45).
- Considered any documents or analysis submitted by Premera after October 15, 2003.
- Considered any discussions with Premera or its advisors, which took place after October 15, 2003.
- Expressed any Opinion, including as to the following:
  - The fair value of Premera
  - The fair value of the public assets of Premera that serve health care needs in Washington
  - Whether the terms of the Transaction fairly distribute the value of the public assets

I. Executive Summary

SUMMARY OF FINDINGS: BUSINESS CASE

While there are certain benefits associated with being a publicly traded company, such as achieving greater financial flexibility and an improved RBC ratio, Premera has not demonstrated a clear need for the proposed amount of capital (i.e., $100 million – $150 million) in the near- to medium-term. Also, raising the proposed amount of new external capital that does not provide a compelling return may result in significant earnings and value dilution to the Foundation. See Section III for additional detail on our analysis of Premera's Business Case.

Issue	Comments
Need for Capital	■ Premera has indicated that it would like to raise between $100 million and $150 million of new capital in an IPO. ■ Premera asserted that this new capital would (i) offer the Company flexibility in pursuing growth opportunities or acquisitions, (ii) enable the Company to augment its statutory capital reserves, (iii) help the Company improve its technology, (iv) expand the breadth of its product offerings, and (v) support the Company in the event the Company experiences a decline in operating results or in its investment portfolio. ■ While above the early warning levels per the BCBSA,[1] the Company's RBC level remains below that of many other BCBS plans. The Company's RBC ratios would be improved through the contemplated initial public offering. ■ Blackstone concurs with Premera's management that there are some benefits associated with strengthening RBC ratios and having greater access to capital and increased financial flexibility.
Proprietary Material Redacted	■ However, throughout the process, the Company has continually maintained that an IPO is not an absolute necessity and that there is no specific need for the capital at this time. [ ] without any additional capital. ■ The Company's organic cash flow from operations appears to be sufficient to meet capital needs in the short- to medium- term (i.e., the projection period). It is difficult to quantitatively assess capital adequacy after 2007.

[1] BCBS Enterprise Monitoring Level = 500%; BCBS Early Warning Level = 375%; BCBS Concern Level = 300%; and BCBS Licensure Minimum Level = 200%.

I. Executive Summary

SUMMARY OF FINDINGS: BUSINESS CASE (CONT'D)

Issue	Comments
Alternative Sources of Capital	■ There are also other sources of capital the Company could access in order to meet capital requirements. Premera believes that the Company could raise some additional debt. ■ However, this level of additional debt would not be as large as the proposed amount of capital raised in an IPO and could adversely impact Premera's RBC ratio. ■ Goldman Sachs has indicated that it would be difficult for Premera to raise surplus notes, given the cost and size restrictions associated with the Company's expected below investment grade rating. ■ The sale / leaseback of selected assets could supplement Premera's capital requirements while also enhancing the Company's RBC ratio. However, there is limited additional capacity for this alternative. ■ At this time, Premera has not considered a sale of the Company to a large national BCBS plan as it believes that being locally controlled and managed is an important part of its current business strategy.
Dilution of Foundation Shareholder in the IPO	■ Premera's original scenario proposed that the IPO proceeds would be invested in bonds yielding approximately 4%. ■ The IPO would be materially dilutive to the Foundation shareholders on an EPS basis (approximately 11% in 2004). In addition, a low return on the capital raised could reduce the Company's ROE from 13.2% to 11.7%. ■ A lower EPS and ROE could impact the value received by the Foundation shareholder both at the IPO and in the aftermarket. ■ The Company prepared an alternative scenario that suggested EPS accretion. However, Blackstone believes that this analysis is less meaningful due to several issues.
Other	■ There may be certain negative aspects of converting. For example, in the process of converting to a for-profit company, Premera could potentially lose certain tax attributes, which could negatively impact future cash flow and reported earnings. In addition, premium taxes in Alaska would likely increase as a result of the conversion. ■ Proprietary Material Redacted

(1) This is in addition to the costs that Premera will incur for the conversion process.

I. Executive Summary

SUMMARY OF FINDINGS: VALUATION

Based upon discussions with the OIC and its counsel, an initial public offering conducted in a reasonable and customary manner could deliver fair market value to the Washington foundations. Blackstone has preliminarily examined the parameters and factors that would impact such an offering. At the time of the offering, Blackstone would update its analysis and would actively monitor the IPO process.

Issue	Comments
IPO Market Conditions	■ Although IPO market conditions have been soft during 2002 and the first half of 2003, recently there have been an increased number of new issues, supported in part by the strong performance in the equity markets. During the 3rd quarter of 2003, there have been 21 IPOs completed, raising $4.2 billion in proceeds, as compared to only 10 IPOs, raising $2.4 billion in proceeds, in the entire first half of the year.[1] ■ Historically, after an initial public offering BCBS companies have performed well on both an absolute and a relative basis to the market, with an average relative 7-day and 180-day price performance of 13% and 42%, respectively. However, the most recent IPO, associated with WellChoice, had relative performance of (8%) in its first 180 days. ■ Based upon a recent examination of selected initial public offerings, the average initial public offering discount for a BCBS conversion was 28%.[2] The IPO discount in the WellChoice transaction was equal to 19%. ■ The investment community continues to believe in the strong fundamentals of BCBS companies, with expectations of 15% – 20% short-term earnings growth driven by margin expansion and larger underwriting spreads despite lower expected member enrollments and downward pressure on premiums in some markets. ■ It is unclear what impact recent decisions by several BCBS companies to postpone or discontinue their conversion plans will have on the investment community's appetite for publicly traded managed care companies.

(1) Source: Security Data Corporation.
(2) Source: Goldman Sachs. Represents average IPO discount of five BCBS company offerings based upon the one-year forward P/E discount to comparable companies. WellChoice data was added to the study by Blackstone.

I. Executive Summary

SUMMARY OF FINDINGS: VALUATION (CONT'D)

Issue	Comments
Comparable Companies	■ Publicly traded BCBS managed care companies currently trade at an average 2003E P/E of 14.7x and 2004E P/E of 12.8x, with publicly traded regional non-BCBS managed care companies trading at 13.0x 2003E P/E and 11.5x 2004 P/E. ■ When compared to historical one-year-forward P/E multiples, BCBS managed care companies are currently trading at a discount of 5% to the historical average of 15.4x. ■ Premera's medical loss ratio and S,G&A ratio are above, while profitability margins are below, the mean of results for the comparable companies.
Monitoring IPO Process	■ If Premera were to move forward with an IPO, Blackstone would closely monitor the IPO process. Our action plan for monitoring the IPO is summarized in Section IV. ■ In connection with its IPO monitoring efforts, Blackstone would closely review the offering, including the following: (i) equity market conditions; (ii) appropriate IPO discounts; (iii) communication of Premera's "story" to the investment community; (iv) split between primary and secondary offering; and (v) size and pricing of offering.
Other	■ Premera may not retain certain tax attributes that it currently assumes would continue after conversion. If the Company were to lose such attributes, then the Company's book tax rate would be higher, which could in turn reduce the Company's reported EPS and potentially diminish the value of the Company in an IPO. ■ If Premera were to lose the BCBS mark, its valuation would likely be meaningfully impacted. The loss of the BCBS mark would result in [PROPRIETARY MATERIAL REDACTED] (ii) the entry of a new competitor who would possess the BCBS mark, and (iii) the likely loss of members due to increased market competition in Washington and Alaska.

Proprietary Material Redacted

I. Executive Summary

SUMMARY OF FINDINGS: TRANSACTION DOCUMENTS

As outlined below, there are several aspects of the Transaction that are either incomplete or inconsistent with recent BCBS conversions. While there are certain BCBS restrictions that need to be considered, it may be difficult to justify a transaction being fair that would not have provisions that are at least as favorable to the Foundation shareholder as those in previous transactions.[1] The proposed treatment may negatively impact the value of the Foundation shares as well as the fairness of the overall transaction. A summary of our issues with the Transaction documents are outlined on the following pages.

Voting Trust and Divestiture Agreement[1]

- As Section 4.03(c) is currently written, the Trustee is required to vote with the Independent Board Majority in most circumstances, as described in Section 4.03(a) and Section 4.03(b).
  - As a result, the Independent Board Majority would control voting of the Foundation shareholder's shares, which could serve as a management entrenchment device. In addition, as Section 4.03(c) is currently written, the Foundation shareholder would have no ability to vote on a change-of-control proposal, a significant corporate action, or management compensation plans.
- Under Premera's current documents, the Foundation shareholder would not have any representation on Premera's board. In the creation of the Foundations, shareholders in the WellPoint and WellChoice conversions were given at least limited representation on the board of directors of the respective company (e.g., observer rights and designated board representative in the case of WellChoice).
- The Premera Voting Trust and Divestiture Agreement stipulates that the Foundation must be consulted on a change-of-control proposal as long as the Foundation owns 50% of the stock, while prior conversions[1] provided for the Company to consult the Foundation as long as it owned at least 20%.

[1] Based upon review of Voting Trust and Divestiture Agreements relating to the plan of conversion for BCBSNC, Cobalt, RightCHOICE, WellChoice, and WellPoint. BCBSNC based upon second amended and restated plan of conversion filed 9/30/02. Although BCBSNC has since withdrawn its plans for conversion, these documents represent BCBSNC's proposed positions and therefore are relevant to consider.

I. Executive Summary

SUMMARY OF FINDINGS: TRANSACTION DOCUMENTS (CONT'D)

Voting Trust and Divestiture Agreement (Cont'd)

- The divestiture provisions currently proposed in the Transaction require that the Foundation reduce its holdings at a swifter rate over the long term than those similar provisions in prior conversions.[1] WellChoice's provision allowed its Fund to own less than 50% after three years, less than 20% after five years, and less than 5% after 10 years versus, for Premera, the Foundation must own less than 50% after three years and less than 5% after six years.
- Premera has indicated that it will have the right to designate three observers to the Foundation shareholder's board, which is out of line with recent transactions, such as WellChoice.
- Premera's position with respect to payment for Trustee Services is less favorable than prior conversions. Whereas Premera suggests that the Foundation will pay these fees after the IPO, prior conversions at a minimum split the payment of these fees between the Company and the Foundation. WellChoice and BCBSNC[1] stipulated that the Company would pay these fees according to a predetermined schedule.
- While Premera's indemnification of the Trustee is consistent with prior conversions where the Foundation indemnifies the Trustee, BCBSNC's[1] agreement provided for the Company to indemnify the Trustee except in cases where the basis of the claim resulted from instructions given by the Foundation.
- The standstill provisions currently contain certain provisions that are more restrictive than that of WellChcice. As opposed to Premera, in WellChoice the Foundation was not prohibited from calling any special meetings of shareholders. In addition, WellPoint's Voting Trust and Divestiture Agreement did not contain a provision restricting solicitation of a transaction as Premera currently proposes.

[1] Based upon review of Voting Trust and Divestiture Agreements relating to the plan of conversion for BCBSNC, Cobalt, RightCHOICE, WellChoice, and WellPoint. BCBSNC based upon second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.

I. Executive Summary

SUMMARY OF FINDINGS: TRANSACTION DOCUMENTS (CONT'D)

Registration Rights Agreement

- The proposed Transaction includes terms that in certain circumstances are more restrictive than those in precedent conversions[(1)], which would suggest that the Foundation would have less flexibility in determining the most appropriate time and mechanism during which and by which to dispose of its shares in the Company. Such limited flexibility may inhibit the Foundation's ability to optimize the value associated with its holdings.

- The terms under which Premera would not be required to register the Foundation's shares are generally broader than many precedent transactions.
  - An exemption would also be applicable in Premera's case if a demand registration were effected during the calendar year in which the demand was received. Both BCBSNC[(2)] and WellChoice[(3)] essentially provided that this exemption would occur in the case where two demand registrations were to have been effected.
  - Premera's exemption for registration if the Company effected a registration during the preceding 180-day period is in excess of the 120-day period stipulated in the agreements for RightCHOICE, Cobalt, WellPoint, and BCBSNC[(2)] (WellChoice's exemption is a 90-day period).

- Certain elements of the Company Purchase Option, including the Company's option to buy back the Foundation's stock prior to an IPO, may limit the Foundation's ability to maximize the value of its holdings in Premera.[(4)] The terms of the precedent conversions in many circumstances either did not provide a similar sort of purchase option before or after an IPO (e.g., WellChoice and BCBSNC[(2)]) or restricted the Company's option to subsequent registration rights in which the purchase price would be determined based upon the average closing price over a specified period of time.

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(1) Based upon reviewing the registration rights agreement relating to the plan of conversion for BCBSNC, Cobalt, RightCHOICE, WellChoice, and WellPoint.
(2) BCBSNC based upon second amended and restated plan of conversion filed 9/30/2002. BCBSNC has since withdrawn its plans for conversion.
(3) WellChoice's exemption stipulates that the Company would not be required to register if there were two demand registrations effected during a calendar year for the first 42 months following the offering. Note: In addition, for the period commencing 42 months after the IPO, the company would not be required if one demand registration was previously effected during a calendar year.
(4) Such a scenario would be relevant only if the Company were not to pursue a conversion executed simultaneously with an IPO.

I. Executive Summary

SUMMARY OF FINDINGS: TRANSACTION DOCUMENTS (CONT'D)

Registration Rights Agreement (Cont'd)

- Although the registration rights agreement restricts the Foundation from selling under Rule 144 until it has received proceeds of at least 25% of the outstanding capital stock of the Company, WellChoice and WellPoint allowed their respective Foundations to sell under Rule 144 with no restrictions.
- In addition, whereas Premera provides that the Foundation may sell in a private placement where the Company has the option to buy for a 30-day period, neither WellChoice nor WellPoint included a similar purchase option in their agreements.
- Also, Premera's holdback period of 30 days, during which the Company could not sell any securities after registration for underwritten demand offering by the Foundation, is less than the 90-day period stipulated in the WellChoice and WellPoint agreements.

Tax Indemnification

- The company currently proposes that the Foundation shall indemnify Premera for any tax liabilities that may occur subsequent to the Transaction. This could potentially have a negative impact on the value received by the Foundation.

Management Equity Compensation[1]

- The contents of this document have not been reflected in our report, as discussed in Commissioner Kreidler's 17th Order dated October 23, 2003.
- Prior to the October 15th Form A deadline, Premera had not provided a formal management equity compensation plan but had only proposed certain guidelines for a potential plan. Without a detailed management equity compensation plan, Blackstone is unable to fully understand the dilution that would occur from equity offered to management by the Company. Dilution from a management equity compensation plan could affect the value of the Foundation shareholder's ownership.
- Important areas that were not covered under the guidelines that Premera has submitted include: exercisability of options, maximum individual grants, cancellation and reissue of underwater options, payment for shares at exercise, maximum option term, treatment of options at termination of employment, treatment of options upon a change in control, and transferability of stock or stock options.
- Premera's proposed limitations apply only for a period of 24 months, at which expiration an additional stock program may be implemented.

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(1) Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

I. Executive Summary

SUMMARY OF FINDINGS: TRANSACTION DOCUMENTS (CONT'D)

Management Equity Compensation[1] (Cont'd)

- The percentage of total shares outstanding that Premera is proposing to offer officers, employees, and directors in total grants (7% of shares outstanding) is greater than the percentages included in selected BCBS precedent IPOs (WellPoint at 4.6%), although on average it is consistent with BCBS and other conversion transactions (average of 6.8% for selected BCBS prior conversions and 7.0% for all conversions, including both life demutualizations and BCBS conversions[2]).
- Premera's guidelines contemplate up to 1.5% of shares would be available for a broad-based grant of options to non-executive employees following the IPO. While recent BCBS transactions have not included such a broad-based grant, selected life demutualizations (e.g., Principal, Prudential) have included such a provision.
- The guidelines currently proposed by the Company enable Premera's officers, employees and directors to be eligible for grants immediately after the Conversion and enables management to issue options for up to 4.3% of the shares outstanding in the first year after the IPO.[3] Additionally, the guidelines currently proposed by the Company do not require shareholder or Foundation shareholder approval for the initial grants. WellChoice prohibited all stock options and grants to senior management for a period of one year after the IPO. Anthem did not allow any option grants for six months.

Takeover Defense[4]

- The Company's takeover defenses are generally in line with other recent conversions and IPOs, with certain exceptions.
- Premera has proposed that shareholders be allowed to call a special meeting with the written consent of 25% of the shareholders. While only three of eight companies that were reviewed allowed for written consent to call a special meeting, two of these companies allowed shareholders to call a special meeting with written consent of 10% of shareholders.[5]
- The Company also contemplates instituting a shareholder rights plan ("poison pill"), which would have a 15% trigger. This is inconsistent with a review of precedent conversions, many of which involved companies (seven of eight) that do not have a shareholder rights plan. Specifically, a poison pill was not implemented for WellChoice. In addition, it is interesting to note that Aetna, a publicly traded managed care company, recently removed its poison pill.
- Premera is allowed to consider noneconomic factors in a change of control proposal under Washington law although the Company has not included such a provision in its corporate documents.

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(1) Based upon review of management equity compensation plans in prior conversions of selected BCBS companies, including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint, and in prior conversions of selected prior demutualizations of non-BCBS companies, including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.
(2) Average based upon figures for selected BCBS companies, including Anthem, RightCHOICE, Trigon, WellChoice, and WellPoint, and selected prior demutualizations, including AmerUS, John Hancock, MetLife, MONY, Principal, Prudential, and StanCorp.
(3) Includes up to 1.5% of the shares outstanding for a one-time grant to employees who are not officers or directors and up to 2.8% for directors, officers, and employees.
(4) Based upon review of selected provisions of documents relating to prior conversions including Anthem, BCBSNC, Cerulean, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint. BSBCNC based on second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.
(5) WellPoint, Cerulean, and BCBSNC allowed shareholders to call a special meeting. WellPoint and BCBSNC allowed this upon written consent of at least 10% of all votes entitled to be cast.

II. Topics to be Addressed

As part of Blackstone's engagement, Blackstone is being asked to deliver (i) a valuation letter, (ii) a written fairness opinion letter and (iii) a written executive summary of (i) and (ii) above. Each of the items described above is contained in this document. In connection with these reports, the OIC has requested that Blackstone examine and analyze the following topics.

Topic	Addressed In
■ Whether there exists a legitimate rationale for the recommendation that Premera undergo a conversion.	Section 3
■ Whether Premera could reasonably be expected to continue as a viable non-profit company without converting.	Section 3
■ Whether capital needs of Premera might be satisfied by means other than an equity offering, such as a merger or strategic alliance, issuance of debt instruments, or organic growth.	Section 3
• The potential implications that the current environment for raising capital or debt may have on cost and availability.	Section 3
• A general assessment of the market conditions for issuing capital or debt.	Section 3
■ Whether the arguments advanced by the applicants in favor of the proposed Transaction are supported by verifiable industry trends and experience.	Section 3
■ Whether a public market valuation of Premera through a public offering is the most appropriate method of valuation, including a discussion of several valuation considerations, factors, and methodologies.	Section 4
■ Whether the contemplated public offering is constructed such that it is comparable to prior transactions and consistent with existing market conditions in order to optimize value.	Sections 4 and 5
■ Whether the proposed Transaction is structured to optimize the value of the Foundation's shares and minimize potential dilution.	Sections 4 and 5
■ Whether the arguments advanced by the applicants in favor of the proposed Transaction are complete and based upon reasonable facts and assumptions.	Sections 3 and 5
■ Whether and how the valuation of the Foundation's shares would be impacted with and without the BCBS mark.	Section 4
■ An examination of the potential value of Premera five, ten, and fifteen years into the future.	Not Addressed[1]
■ Any other matters that Blackstone, in its judgment, concludes should be included in the analysis, or upon which the OIC and Blackstone agree subsequently.	Sections 3, 4, and 5

[1] Based on subsequent discussions with the OIC and its consultants it has been decided that an IPO of Premera conducted in a customary and reasonable manner could satisfy the fair market value test.

III. Review of Premera's Business Case for Conversion

MANAGEMENT'S RATIONALE FOR CONVERSION

As outlined below, the management team of Premera, in Exhibit E-7, has articulated a number of reasons to effect the conversion of Premera from a non-profit to a for-profit organization followed by a public offering. Although the public offering would provide the Company with financial flexibility and a strengthened RBC position, based on management's financial projections Premera does not seem to require the proposed amount of additional capital (i.e., $100 million – $150 million).

Premera's Stated Rationale	Premera's Comments
Access to equity capital will allow Premera to make capital investments that it expects to pursue in the future.	■ In a November 2001 survey conducted by Accenture, it is estimated that the amount of expenditures needed by the average health plan with revenue over $500 million could be between $90 and $190 million over the next 3 – 5 years, excluding capital spent for acquisition activity. ■ Key areas of additional capital investment are: • Technology and Infrastructure • Growth • Maintaining Capital Stability • Product Development • Meeting Regulatory Mandates ($30 – $60 million)
Premera's level of profitability makes it difficult to effectively fund Premera's full growth potential without assistance from additional sources of capital.	■ Premera's operating income margins (1.2% in 2001 and 1.4% in 2002) may not generate sufficient cash flow to support its growth plans. ■ Premera has reported operating losses in four of the last eight years. ■ Increased administrative efficiencies may only partially meet capital requirements. ■ It may not be prudent to depend upon generating additional operating income from increased premiums or paying less for third-party vendor services.
Equity capital is the most prudent and reliable source of capital for Premera.	■ Premera has suggested that a sale of certain assets would provide an insignificant one-time source of capital and would be counterproductive to its goals of meeting market demands. ■ Pursuing a sale to a national BCBS plan in order to access capital is not consistent with Premera's intention to remain independent and locally controlled / locally focused. ■ Premera's ability to raise debt financing or raise capital through sale / leasebacks is limited. ■ Debt financings would not be beneficial to Premera's RBC ratio

III. Review of Premera's Business Case for Conversion

ACCENTURE ESTIMATES OF CAPITAL REQUIREMENTS / SOURCES

In a November 2001 study, Accenture provided estimates of potential capital requirements for managed care companies over the following three- to five-year period. Accenture's estimate of $90 million – $190 million of capital expenditures Proprietary Material Redacted

($ in millions)

Category	Accenture 2001 Study[1]
eCommerce	$10 – $40
Shift to Consumerism	20 – 40
Improvements to Operational Systems	30 – 50
HIPAA	30 – 60
Total Excluding Mergers and Acquisitions	**$90 – $190**
Mergers & Acquisitions[2]	330 – 450
Total	**$420 – $640**

[1] Represents capital requirements over the next three- to five-year period.
[2] Also includes contingency for a price war of $70 million – $80 million.

III. Review of Premera's Business Case for Conversion

Projected Cash Flow(1)

Premera's management provided the following cash flow projections, which show that the Company will generate positive cash flow after making all of the necessary capital investments. In addition, under management's original 5-year forecast, the Company has projected an RBC ratio of in 2003.

PROPRIETARY MATERIAL REDACTED

Proprietary Material Redacted

(1) Source: Premera management model dated March 21, 2003, provided through due diligence process, assuming no conversion. A revised forecast was received from Premera on October 7, 2003 (background detail was received on October 17, 2003). Blackstone has relied on the original forecast as opposed to the revised projections given that the OIC and its consultants have not had an opportunity to sufficiently review and examine the revised projections.

III. Review of Premera's Business Case for Conversion

RISK-BASED CAPITAL RATIO

Premera management provided a sensitivity analysis[1] that includes scenarios that could create an unexpected capital demand on the Company and the resulting impact on RBC after two years. Proprietary Material Redacted

Proprietary Material Redacted

III. Review of Premera's Business Case for Conversion

PREMERA CAPITAL EXPENDITURES RELATIVE TO PUBLIC BCBS AND NON-BCBS COMPANIES

Blackstone has analyzed the capital expenditures[1] (excluding acquisitions) of 10 publicly traded managed care companies over the period 1997 – 2002. During this period, Premera has spent less than the average comparable company on an absolute basis; however, the Company has capital expenditures approximately in line with its peers on a relative basis (CapEx / Depreciation, CapEx / Revenue, CapEx / Total Assets).

($ in millions)

	Avg. Annual CapEx	Avg. CapEx / Depreciation	Avg. CapEx / Revenue	Avg. CapEx / Total Assets	2002 Revenue[2]
BCBS					
WellPoint	$61.9	1.4x	0.7%	1.1%	$17.3
Trigon[3]	23.8	1.5	0.9	1.0	3.0
Cobalt	5.6	1.0	0.6	1.3	1.5
RightCHOICE[4]	10.6	0.6	1.3	2.0	1.1
Anthem[5]	81.8	1.1	0.9	1.1	13.0
Maximum	**$81.8**	**1.5x**	**1.3%**	**2.0%**	
Mean	**36.7**	**1.1**	**0.9**	**1.3**	
Minimum	**5.6**	**0.6**	**0.6**	**1.0**	
Regional Non-BCBS					
Coventry	$11.0	0.8x	0.5%	1.1%	$3.6
HealthNet	86.3	3.3	1.0	2.5	10.2
Humana	87.4	1.0	0.9	1.8	11.3
MAMSI	16.6	1.5	1.0	3.0	2.3
Oxford Health	34.0	0.9	0.8	2.6	5.0
Maximum	**$87.4**	**3.3x**	**1.0%**	**3.0%**	
Mean	**47.1**	**1.5**	**0.8**	**2.2**	
Minimum	**11.0**	**0.8**	**0.5**	**1.1**	

PROPRIETARY MATERIAL REDACTED

(1) Net purchases of Property, Plant, and Equipment.
(2) US$ in billions.
(3) Represents data for the period 1997 – 2001.
(4) Represents data for the period 1997 – 2000.
(5) Represents data for the period 2000 – 2002.

III. Review of Premera's Business Case for Conversion

CAPITAL RAISED BY SELECTED COMPARABLE MANAGED CARE COMPANIES

In terms of cash for operations, several public managed care companies were non-issuers or net returners of capital during the period 1997 – 2002 (e.g., MAMSI and Oxford Health). Typically, public managed care companies have only accessed the capital markets in significant quantities for acquisitions, not for ongoing operations.

($ in millions)

	Net Capital Raised for Operations			Net Capital Raised for Acquisitions		
	Equity[1]	Debt[2]	Total	Equity	Debt	Total
BCBS						
WellPoint[3]	($441)	($124)	($565)	$1,109	$898	$2,007
Trigon	(34)	296	262	0	0	0
Cobalt	8	0	8	59	0	59
RightCHOICE	0	(23)	(23)	0	0	0
Anthem	(210)	296	86	2,639	950	3,589
Total BCBS	($677)	$445	($232)	$3,807	$1,848	$5,655
Regional Non-BCBS						
Coventry	($228)	($54)	($282)	$330	0	$330
Health Net	(271)	(496)	(767)	2,149	0	2,149
Humana	(102)	441	339	0	371	371
MAMSI	(235)	2	(234)	0	0	0
Oxford Health	(959)	300	(659)	0	0	0
Total Regional Non-BCBS	($1,795)	$192	($1,603)	$2,479	$371	$2,850
Total	($2,472)	$637	($1,835)	$6,286	$2,219	$8,504

Source: Cash flow statement and financial footnotes from public 10-K and 10-Q filings.
(1) Includes public equity issued (other than for acquisitions) less share repurchases and dividends paid to shareholders.
(2) Includes issuance of debt (other than for acquisitions) less repayment of long-term borrowings.
(3) In 1993, proceeds from initial public offering of Class A common stock, net of expenses, amounted to $515.9 million.

III. Review of Premera's Business Case for Conversion

CREDIT STATISTICS OF SELECTED COMPARABLE PUBLICLY TRADED COMPANIES

If Premera were to target a capital structure similar to that of public managed care companies, the Company would be able to raise a modest amount of incremental debt. Assuming a debt / EBITDA ratio in line with the comparable companies, Premera could be able to raise approximately $22 million to $43 million in new debt.[(1)] *However, increased leverage would negatively impact the RBC ratio unless the debt were structured as a surplus note.*

($ in millions)

Company	Debt / Cap	Debt / LTM EBITDA	LTM EBITDA / Interest	LTM EBIT / Interest
Anthem, Inc.	23.5%	1.3x	10.9x	9.2x
WellChoice	0.0	0.0	0.0	0.0
WellPoint Health Networks Inc.	20.9	0.8	30.0	27.3
Coventry Health Care, Inc.	18.3	0.5	22.7	21.5
Health Net, Inc.	23.1	0.7	14.4	12.7
Humana Inc.	26.0	1.3	28.3	20.9
Mid Atlantic Medical Services	0.8	0.0	NM	NM
Oxford Health Plans, Inc.	39.6	0.6	42.7	41.0
Maximum	**39.6%**	**1.3x**	**42.7x**	**41.0x**
Mean	**19.0**	**0.7**	**21.3**	**18.9**
Minimum	**0.0**	**0.0**	**0.0**	**0.0**

PROPRIETARY MATERIAL REDACTED

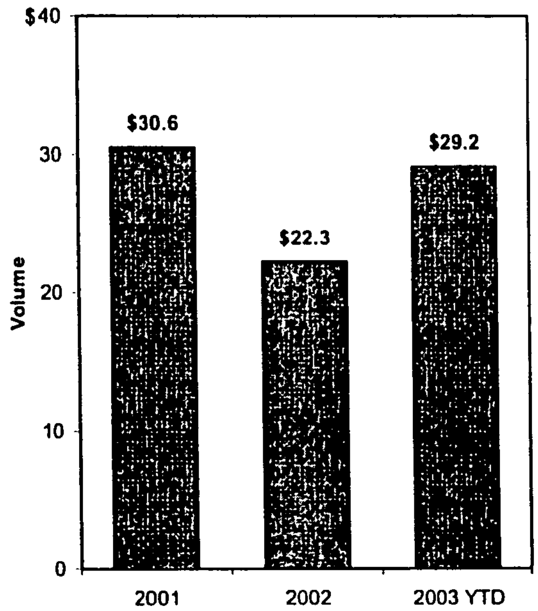
III. Review of Premera's Business Case for Conversion

RECENT TRENDS IN DEBT CAPITAL MARKETS

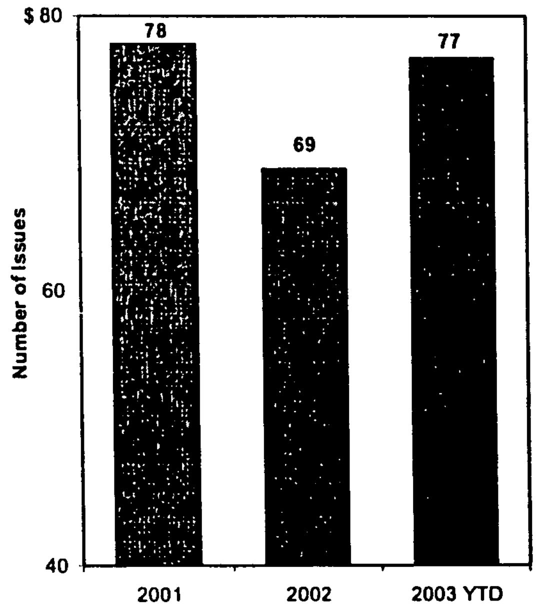
New issuances in the debt capital markets have increased significantly, with the dollar value of new issuances in 2003 already outpacing those in 2002.

($ in billions)

New High Yield Issuance



New High Yield Issuance



Source: Securities Data Corporation as of October 17, 2003.

III. Review of Premera's Business Case for Conversion

COMPARATIVE RISK-BASED CAPITAL RATIO

Premera's RBC ratio ranks in the bottom 10% of all Blue plans and is 30% less than the system-wide average of 599%. This lends support to Premera's arguments that enhanced access to capital and some additional capital may be beneficial.

Primary Licensee Name	State	RBC at 12/31/2001	Primary Licensee Name	State	RBC at 12/31/2001
BCBS of Nebraska	NE	1,729%	BCBS of Oklahoma	OK	606%
Capital BC	PA	1,414	The Regence Group[1]	OR	572
BCBS of Wyoming	WY	1,154	Arkansas BCBS	AR	568
BCBS of Tennessee	TN	1,098	BCBS of Louisiana	LA	545
BC of Northeastern Pennsylvania	PA	1,037	CareFirst	MD	528
BCBS of Arizona	AZ	904	BCBS of Montana	MT	496
BCBS of Mississippi	MS	858	Horizon BCBS of New Jersey	NJ	496
Highmark	PA	834	BCBS of Michigan	MI	493
BCBS of Hawaii	HI	819	BCBS of Massachusetts	MA	481
BCBS of Kansas	KS	811	Health Care Service Corporation	IL	476
BCBS of South Carolina	SC	770	Triple-S	PR	470
BCBS of Alabama	AL	754	BCBS of Vermont	VT	464
BCBS of Kansas City	MO	647	BCBS of Rhode Island	RI	452
BC of Idaho	ID	642	Empire BCBS	NY	427
BCBS of North Carolina	NC	640	**Premera**	**WA**	**420**
Wellmark	IA	625	Independence BC	PA	405
Aware Integrated	MN	624	Excellus	NY	360
BCBS of North Dakota	ND	623	BCBS of Western New York	NY	270
			System-wide		599%

(1) RBC ratios for The Regence Group include Regence BlueShield of Idaho (RBSI), a separate Primary Licensee, RBSI's own RBC ratio was 379% as of 12/31/2001.

Note: The following Primary Licensees requested that their RBC ratio not be published: WellPoint Health Networks (CA), BS of California (CA), BCBS of Florida (FL), Anthem, Inc. (IN), RightCHOICE Managed Care (MO), Trigon Healthcare (VA), Cobalt Corporation (WI). However, these companies' figures are reflected in the system-wide totals.

Source: Blue Cross Blue Shield Association, 2002.

III. Review of Premera's Business Case for Conversion

ACCRETION / (DILUTION) ANALYSIS SENSITIVITIES

Given the proposed use of proceeds, a transaction involving between $100 million and $150 million of new capital would result in significant levels of EPS dilution to the Foundation. As the new proceeds decrease, the dilution would be less. As outlined below, a transaction would also reduce ROE while strengthening RBC ratios.

Proprietary Material
Redacted

Proprietary Material
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III. Review of Premera's Business Case for Conversion

ACCRETION / (DILUTION) ANALYSIS SENSITIVITIES (CONT'D)

Concept	Premera's Position	Blackstone's Observations
Size of IPO needs to be $100 million to $150 million	■ The initial size of the public offering has been indicated by the Company and its financial advisor, Goldman Sachs, to be between $100 and $150 million in order to, among other things, minimize any potential valuation discounts, attract significant investor attention, and create sufficient public float.	■ The Company has indicated that it does not require the contemplated level of proceeds from an IPO to achieve its business plan. ■ A smaller IPO of primary shares could minimize dilution to the Foundation. ■ Additionally, enabling the Foundation to sell secondary shares could also minimize dilution;[1] however, the Foundation may be less willing to sell a significant amount of its holdings at the IPO price.
Multiple expansion post-IPO could mitigate impact of initial earnings dilution	■ Although EPS may decline as a result of the additional shares issued in the IPO, a modest increase in the P/E multiple post-IPO could result in a higher share price for Premera's common stock subsequent to the IPO, thus compensating for the EPS dilution resulting initially from the IPO.	■ There is no certainty as to whether Premera will experience multiple expansion post-IPO. ■ Additionally, it is unclear whether there is a correlation between EPS dilution and multiple expansion.
Alternative, more optimistic operating scenario could result in earnings accretion in 2005	■ EPS dilution resulting from the IPO could be further mitigated if the Company were able to achieve a more optimistic operating case in which insured member growth improves to 12% in 2004 and 2005 along with certain administrative cost savings[2] on these incremental members. ■ Such a scenario would suggest that the IPO would be mildly dilutive (approximately 1%) in 2004 and accretive in 2005 to the Foundation shareholder on an EPS basis.[3]	■ The Company has stated that it could achieve the improved projections under the alternative model in the absence of an IPO. ■ This suggests that the use of proceeds analysis of the IPO is inaccurate given that the pro forma dilution was calculated comparing the Company's alternate model after an IPO to the Company's management case scenario rather than to the Company's alternate model absent the IPO (i.e., an "apples-to-oranges" comparison). ■ On an "apples-to-apples" basis, the IPO would be approximately 12% dilutive to the Foundation.[4]

[1] Assuming a constant IPO size including a mix of primary and secondary shares would be less dilutive to the E.P.S. of Premera relative to an all primary share deal.
[2] Assumes incremental new members have associated operating costs equal to 75% of existing base case 2004 membership, with the remaining 25% of operating costs remaining fixed.
[3] Based upon the same assumptions as the original proceeds analysis except for the following: net proceeds from the IPO of $138 million, 7.6 million shares issued in the IPO, and an alternative operating scenario which generally represents a more optimistic case with enhanced growth and profitability.
[4] Based upon the same assumptions as the original proceeds analysis except for the following: net proceeds from the IPO of $138 million, 7.6 million shares issued in the IPO, alternative operating scenario which generally represents a more optimistic case with enhanced growth and profitability, and 4% rate of return on net proceeds taxed at a 21% rate.

III. Review of Premera's Business Case for Conversion

SELECTED PRECEDENT BCBS INITIAL PUBLIC OFFERINGS

Goldman Sachs has indicated that it may be necessary to complete a public offering of a particular size in order to (i) minimize liquidity discounts, (ii) generate sufficient market interest and awareness, and (iii) establish a sufficient public float for the stock. Outlined below are the IPO size and float statistics for other BCBS conversions.

($ in millions)

Company	IPO Size	% Public Float[1]
WellChoice	$393	20%
Trigon	187	39
Anthem	1,617	47
RightCHOICE	33	18
WellPoint	451	18
Maximum	**$1,617**	**47%**
Mean	**536**	**28**
Median	**451**	**20**
Minimum	**33**	**18**

Note: Analysis based upon IPO plan as filed and does not include "Greenshoe" proceeds associated with offering.
[1] Defined as the number of common shares sold to the public in an IPO compared to the total common shares outstanding post-IPO.

III. Review of Premera's Business Case for Conversion

PRIMARY VS. SECONDARY

Comparable BCBS conversions in the last five years have seen a substantial amount of the IPO proceeds accrue to the "Community / Policyholders"[(1)] with only a small portion of the proceeds being raised by the Company.

($ in millions)

		Net Proceeds		Percentage of Net Proceeds	
Company	Date	Company	Community[(1)] / Policyholders	Company	Community / Policyholders[(1)]
WellChoice[(2)]	11/7/2002	$0	$393	0%	100%
Trigon[(3)]	1/31/1997	($79)	$266	(42%)	142%
Anthem[(4)]	10/29/2001	$183	$1,434	11%	89%
Proposed Premera	2004	$100 – $150[(5)]	NA	NA	NA

Note: Analysis based upon IPO plan as filed and does not include "Greenshoe" proceeds associated with offering.

(1) Represents Foundation, mutual policyholders, or public / government shareholders.

(2) The originally planned IPO shares would be sold by the Foundation for net proceeds of $393 million. The Company would not receive any proceeds unless the underwriters exercise their over-allotment option, which was expected to equal a potential $28.0 million in net proceeds.

(3) In conversion, Foundation was not a shareholder, but was paid $175 million in cash from a mixture of IPO proceeds and credit facilities. Of the $187.2 million of net proceeds, $56.0 million would be used towards the $175 million Foundation payment with the remainder being funded through a credit facility, $91.3 million would be used to pay mutual members, and the remaining $39.8 million would be received by the Company.

(4) Of the originally planned $1.6 billion in net proceeds issued by the Company, $1.4 billion would be used to pay mutual members, with the remaining $183 million going to the Company. If the underwriters exercise their overallotment, the Company was to receive an additional $247 million of net proceeds.

(5) Based on two "use of proceeds" analyses received from Premera management.

IV. Preliminary Valuation Analysis

DESCRIPTION OF TRADITIONAL VALUATION METHODOLOGIES

Set forth below is a description of the traditional methodologies that Blackstone would utilize to determine the fair value of Premera. Given that an IPO conducted in a customary and reasonable manner could satisfy the fair market value test, the comparable company analysis is the most relevant.

Methodology	Description / Comments
Comparable Publicly Traded Company Analysis	■ Compares the value of Premera to the value of selected companies that have similar business operations, using multiples of certain business and financial metrics (e.g., revenue, EBITDA, net income) ■ Reflects market value as of a certain date; market values may change significantly over time ■ No company utilized is exactly the same as Premera ■ Does not reflect a potential discount that could result from Premera's being a nonpublic company ■ Most relevant to analyzing a potential IPO valuation
Comparable Precedent Transaction Analysis	■ Implies a value for Premera by analyzing purchase prices and multiples from transactions in which a comparable company was purchased in a change of control ■ Reflects market conditions at the time of the transaction; may not reflect current market conditions ■ Includes a control premium and is therefore less relevant to analyzing fair value in an IPO
DCF Analysis	■ Theoretical valuation of Premera based on its projected free cash flows ■ Highly sensitive to certain assumptions, including projections utilized (usually 5+ years), discount rate, and terminal value assumptions ■ Generally, less relevant for analyzing fair value in an IPO

IV. Preliminary Valuation Analysis

VALUATION CONSIDERATIONS

Set forth below are considerations that may affect the value of Premera in an IPO.

Positives

- Premera has significant market share in each of its core markets (25% insured membership in Washington, 38% in Alaska, and 9% in Oregon).
- Premera is diversified by product, with HMO, PPO, POS, and federal government membership groups.
- Premera has experienced improved financial performance with operating income margins increasing since 2000.
- After realignment of its investment portfolio, Premera has a conservative investment portfolio (only 8% allocated to equities).
- Recent success of winning the Microsoft account and potential to serve national accounts through the BlueCard program.
- Premera's expansion of its Dimensions product line may lead to greater growth rates and higher rates of return for the Company's shareholders.
- Successful geographic expansion into Oregon and potential to expand into other regional markets (e.g., Arizona).
- The Company has significant tax attributes, which may lead to short-term taxes below the federal rate.
- Premera may have some ability to improve margins, resulting from implementation of the Business Systems and Transformation plan, which would consolidate seven disparate systems into one system.
- BCBS stocks have outperformed the S&P 500 (22.0% versus 18.7%) since the beginning of 2003. These companies as a group have strong earnings and enjoy a favorable underwriting environment.

Negatives

- Premera management has asserted that its premiums are at or above those of its peers in some locations, indicating a challenge to competitiveness going forward.
- Premera management has indicated that its markets are competitive, with many significant regional and national competitors (e.g., Regence, Aetna, Great West, Providence) that are looking to increase market share.
- Premera has significantly lower RBC ratio than that of other BCBS plans.
- Pension assumptions may be aggressive, creating the potential for additional cash contributions.[1]
- Certain tax attributes of Premera could be at risk as a result of this Transaction. Additionally, premium taxes in Alaska would increase from 2.0% to 2.7%.
- After conversion, Premera expects to have ongoing public company expenses of approximately $[ ] million.
- Premera has indicated that it will remain independent and locally focused, which could restrict the Company from pursuing certain mergers to enhance its scale and operating performance.
- After conversion, Premera stock may have a valuation overhang, given that the Foundation will be required to sell substantially all of its stake in five years, exerting downward pressure on Premera's stock price.

PROPRIETARY MATERIAL REDACTED

[1] Based on conversations with PwC, tax advisors to the Washington State Office of Insurance Commissioner.

IV. Preliminary Valuation Analysis

SELECTED CONSOLIDATED OPERATING STATISTICS

Premera's original 5-year financial projections indicate Proprietary Material Redacted *Premera management provided an updated three-year forecast on October 7, 2003 (background detail provided on October 17, 2003). Given the timing of the delivery of the forecast relative to the October 15 Form A deadline, Blackstone has not had an opportunity to meaningfully diligence the updated projections.*

($ in thousands)	Historical	
	2001	2002
Income Statement		
Revenue[1]	$2,426,808	$2,617,749
% Growth	*NM*	*7.9%*
Underwriting Margin	420,131	467,822
% Growth	*NM*	*11.4%*
% of Revenue	*17.3%*	*17.9%*
Operating Income[2]	27,948	35,995
% Growth	*NM*	*28.8%*
% of Revenue	*1.2%*	*1.4%*
Net Income[3]	51,157	22,384
% Growth	*NM*	*(56.2%)*
% of Revenue	*2.1%*	*0.9%*
Medical Loss Ratio[4]	84.5%	84.1%
S,G&A Expense Ratio	16.2%	16.5%
Balance Sheet		
Cash and Cash Equivalents	$73,498	$34,630
Investments	627,777	691,012
Total Assets	947,663	1,002,861
Net Worth	351,918	388,932
Return on Equity	14.5%	5.8%
Cash Flow Statement		
Purchases of Property and Equipment	$30,161	$22,906
% Growth	*NM*	*(24.1%)*
Depreciation and Amortization	7,394	11,718
% Growth	*NM*	*58.5%*

Proprietary Material Redacted

Source: Premera management model dated March 21, 2003, provided through due diligence, assuming no conversion.
(1) Revenue on a premium and premium fees basis.
(2) Operating Income = Earnings before Interest, Taxes, Net Investment Income, and Net Realized Investment Gains and Losses.
(3) Excludes conversion expense of $5.6 million in 2002 and in 2003. "Other income / expense" is allocated proportionate to total net revenue. "Interest income and Dividends" is allocated proportionate to total underwriting margin.
(4) Medical Loss Ratio = Cost of Care / Total Premium Revenue.

PROPRIETARY MATERIAL REDACTED

IV. Preliminary Valuation Analysis

REVENUE AND OPERATING INCOME BY BUSINESS SEGMENT

Premera Blue Cross Washington and Alaska, along with LifeWise operations in Washington and Oregon, are the principal contributors to profitability over the original projection period.

($ in thousands)

	Historical	
	2001	2002
Revenue[1]		
Premera Blue Cross – WA	$1,861,025	$1,898,888
Premera Blue Cross – AK	251,635	294,701
LifeWise Washington	6,403	41,670
LifeWise Oregon	268,862	337,711
NorthStar	7,299	6,753
WAGS	4,443	4,911
LifeWise Assurance	24,831	29,669
MSC Life	169	2
Calypso Solutions	4,710	7,087
Premera Entity	0	0
Eliminations / Other	(2,569)	(3,641)
Total Revenue	$2,426,808	$2,617,749
Operating Income[2]		
Premera Blue Cross – WA	$12,202	$12,083
Premera Blue Cross – AK	11,089	19,494
LifeWise Washington	(1,867)	(5,051)
LifeWise Oregon	4,755	14,758
NorthStar	(2,570)	(6,354)
WAGS	(2)	208
LifeWise Assurance	2,842	386
MSC Life	132	(232)
Calypso Solutions	1,367	705
Premera Entity	0	0
Eliminations / Other	0	0
Total Operating Income	$27,948	$35,995

Proprietary Material Redacted

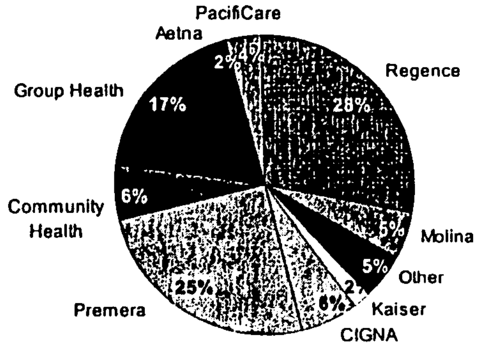
Source: Premera management model dated March 21, 2003, provided through due diligence, assuming no conversion.
[1] Revenue on a premium and premium fees basis.
[2] Operating Income = Earnings before Interest, Taxes, Net Investment Income, and Net Realized Investment Gains and Losses.

IV. Preliminary Valuation Analysis

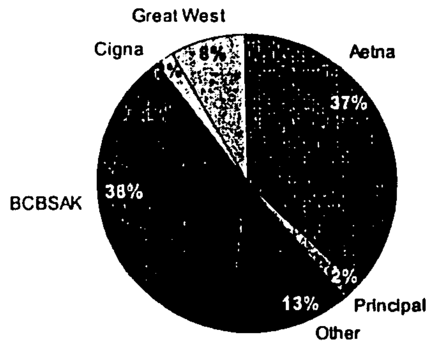
MARKET SHARE

As of December 31, 2002, Premera had the leading market share in insured membership in Alaska, the second-leading market share in Washington, and the third-leading market share in Oregon.

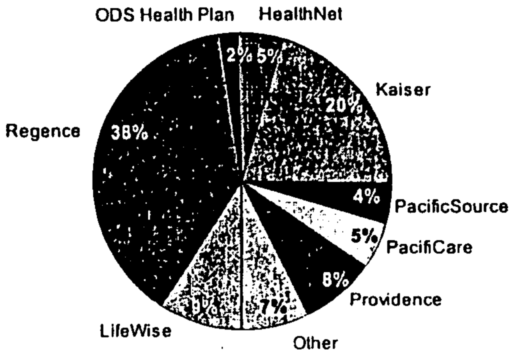
Washington



Alaska



Oregon



Source: Presentation made by Premera management to A.M. Best at March 12, 2003 meeting.

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IV. Preliminary Valuation Analysis

Proprietary Material
Redacted

[1] Per Member Per Month Revenue = Premium Revenue / Insured Member Months.
[2] Medical Loss Ratio = Cost of Care / Total Premium Revenue.

IV. Preliminary Valuation Analysis

UPDATED PROJECTIONS

Premera's updated projections are summarized below. Proprietary Material Redacted *As previously noted, Blackstone has not conducted due diligence on the results shown below or incorporated the results into certain of our analyses.*

($ in thousands)

Income Statement	Proprietary Material Redacted
Revenue[2]	
% Growth	
Underwriting Margin	
% of Revenue	
Operating Income[3]	
% Growth	
% of Revenue	
Net Income[4]	
% Growth	
% of Revenue	
Medical Loss Ratio[5]	
S,G&A Expense Ratio	

Source: Premera summary financial outlook submitted October 7, 2003 (background detail submitted October 17, 2003), provided through due diligence.

(1) Variance equal to absolute difference between original projection dated March 21, 2003, and the updated projection dated October 7, 2003.

(2) Revenue on a premium and premium fees basis.

(3) Operating Income = Earnings before Interest, Taxes, Net Investment Income, and Net Realized Investment Gains and Losses.

(4) PROPRIETARY MATERIAL REDACTED

(5) Medical Loss Ratio = Cost of Care / Total Premium Revenue.

IV. Preliminary Valuation Analysis

IPO MARKET OVERVIEW

A review of the recent IPO market suggests that new issuances have increased and the overall strength of the equity capital markets has improved.

Key Market Themes

- There are several factors driving the recent strength of the initial public offering market and, more broadly, the equity capital markets.
  - Both the government and the Federal Reserve have provided significant monetary and fiscal stimulus.
  - Earnings results for many companies appeared to be strong in Q3.
  - Recent economic reports on the underlying statistics of the U.S. economy tend to be more positive.
  - Mutual fund cash inflows are on balance consistently strong.
  - It would generally appear that dividend yields have increased as companies with strong cash flows and distributions may have been rewarded in the marketplace.
- There remain a number of risk factors to the recovery.
  - The economic outlook of the country remains mixed, with unemployment approximately flat in September and moderate global economic performance.
  - There remains substantial geopolitical uncertainty, driven principally by the Afghanistan and Iraq initiatives as well as recent developments regarding the Israel-Palestine situation.

New Issue Environment

- New issue backlog is trending up in recent months relative to the beginning of this year.
- Investor confidence may be improving, with passive, index-oriented investing replaced by active, selective investing.
- IPO market is relatively more open – new-issue buyer may be back for quality IPOs of real companies with credible growth trajectories.
- Resurgence in follow-on issuance seems to be supported by broad base of buyers.

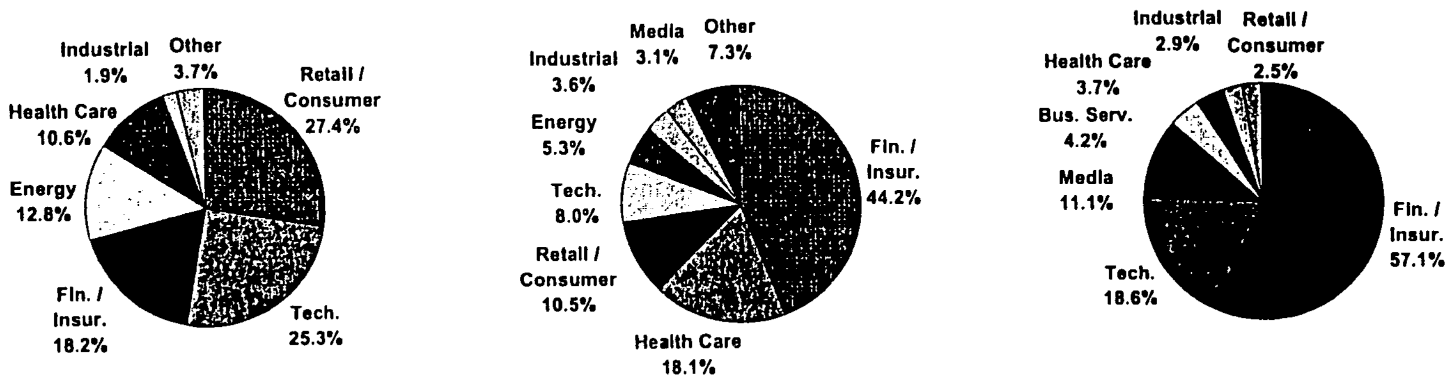
Source: Wall Street Research.

IV. Preliminary Valuation Analysis

IPO MARKET OVERVIEW (CONT'D)

- Over the past three years, the new-issue market has increasingly focused on more traditional business models.
  - While tech and telecom offerings dominated the IPO market in 2000, since then the majority of new-issuance volume has come from financials, media, and technology companies.
- Investors are focusing on the fundamentals:
  - Transparency – plain vanilla accounting has been rewarded;
  - Profitability – as investors have become more risk-averse, early-stage companies have become less attractive;
  - Free Cash Flow – investors are seeking companies that generate strong cash flows;
  - Rising Returns – organic revenue and earnings growth has become a major investor focus; and
  - Sector Leadership and High-Quality Management.

Yearly IPO Issuance by Sector



2001
81 / $35.6 Bn

2002
74 / $23.2 Bn

YTD 2003
32 / $6.1 Bn

Source: Security Data Corporation and Wall Street Equity Research.
Note: Year-to-date as of October 17, 2003.

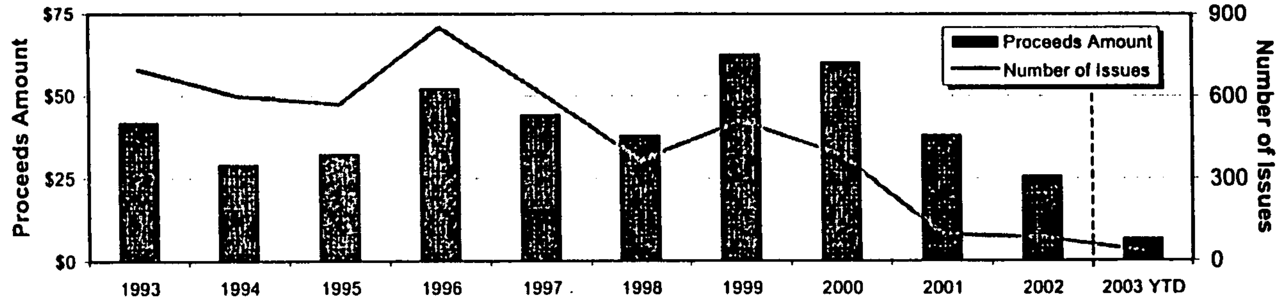
IV. Preliminary Valuation Analysis

CURRENT IPO MARKET

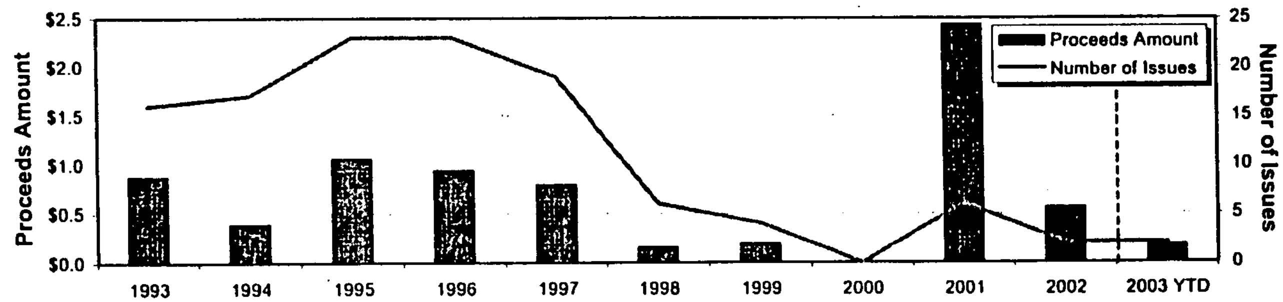
While IPOs have declined recently in terms of number and volume from highs in 1999 and 2000, the recent IPOs of such insurance and health care companies as Axis Capital Holdings and Molina Healthcare Inc. are indications that the market may be receptive to a health insurance IPO.

($ in billions)

Overall IPO Activity



Health Care Providers and Services (HMOs) IPO Activity



Source: Security Data Corporation.
Note: Year-to-date as of October 20, 2003.

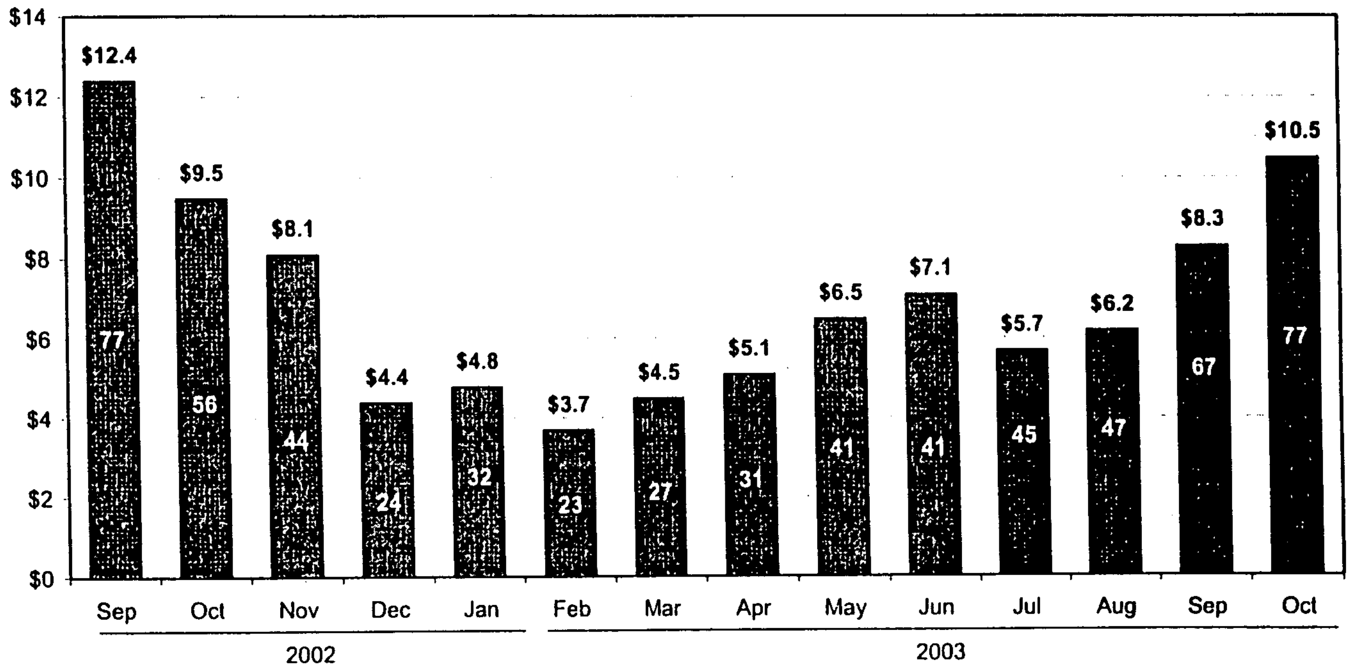
IV. Preliminary Valuation Analysis

IPO BACKLOG VOLUME

Although the IPO market has seen recent weakness, activity should be trending upward in the future, evidenced by a strong and improving IPO backlog.

($ in billions)

Backlog Volume / IPOs and Follow-ons



Source: EquiDesk.
Note: As of October 17, 2003.

IV. Preliminary Valuation Analysis

SELECTED COMPARABLE PUBLICLY TRADED COMPANIES – OPERATING STATISTICS

Set forth below are operating statistics for selected managed care companies. Premera's profitability margins are significantly below those of the public comparables.

Company	EBITDA[1] / Total Revenue 2002	2003E	2004E	EBIT[2] / Total Revenue 2002	2003E	2004E	Operating Income[3] / Total Revenue 2002	2003E	2004E	Net Income / Total Revenue 2002	2003E	2004E	Med. Loss Ratio[4] 2003E	S,G&A / Revenue 2003E
BCBS Managed Care Companies														
Anthem, Inc.	8.2%	8.2%	8.6%	7.0%	7.9%	8.3%	4.7%	6.3%	6.6%	4.2%	4.5%	4.6%	81.7%	18.4%
WellPoint Health Networks Inc.	7.8	8.5	8.7	7.1	7.7	7.9	5.7	6.3	6.5	3.9	4.4	4.5	81.7	15.0
WellChoice	6.5	6.8	7.2	5.8	6.2	6.5	4.5	5.7	6.0	3.4	3.5	3.7	86.0	15.6
Regional Non-BCBS Managed Care Companies														
Coventry Health Care, Inc.	7.2%	9.3%	9.6%	6.7%	8.8%	9.1%	5.6%	7.8%	8.2%	4.1%	5.4%	5.6%	81.6%	11.8%
Health Net, Inc.	5.3	5.5	5.8	4.6	5.0	5.3	3.9	4.5	4.7	2.8	2.9	3.0	85.3	10.1
Humana Inc.	3.7	4.1	4.1	2.6	3.1	3.2	1.9	2.1	2.1	1.7	2.0	1.9	83.6	15.2
Mid Atlantic Medical Services, Inc.	6.9	9.1	10.0	6.4	8.7	9.5	5.8	8.0	8.8	4.2	5.7	6.2	83.3	10.5
Oxford Health Plans, Inc.	11.4	12.1	12.1	10.9	11.5	11.6	8.7	9.6	9.9	5.8	6.8	6.8	79.7	10.4
Maximum	11.4%	12.1%	12.1%	10.9%	11.5%	11.6%	8.7%	9.6%	9.9%	5.8%	6.8%	6.8%	86.0%	18.4%
Mean	7.1	7.9	8.3	6.4	7.3	7.7	5.1	6.3	6.6	3.8	4.4	4.6	82.8	13.4
Minimum	3.7	4.1	4.1	2.6	3.1	3.2	1.9	2.1	2.1	1.7	2.0	1.9	79.7	10.1
Memo: Premera[5]	[PROPRIETARY MATERIAL REDACTED]													

Note: Revenue on a premium and premium fees basis.
(1) EBITDA = Earnings before Interest, Taxes, Depreciation, and Amortization.
(2) EBIT = Earnings before Interest and Taxes.
(3) Operating Income = Earnings before Interest, Taxes, Net Investment Income, and Net Realized Investment Gains and Losses.
(4) Medical Loss Ratio = Cost of Care / Total Premium Revenue.
(5) Source: Premera's original 5-year projected management model dated March 21, 2003, provided through due diligence, assuming no conversion.
(6) Net Income excludes conversion expense of $5.6 million and [ ] in 2002 and 2003, respectively.

PROPRIETARY MATERIAL REDACTED

IV. Preliminary Valuation Analysis

SELECTED COMPARABLE PUBLICLY TRADED COMPANIES – BCBS MANAGED CARE COMPANIES

In assessing an IPO of Premera, the market would look primarily at BCBS managed care companies, which currently trade at approximately 14.7x 2003E EPS and 12.8x 2004E EPS.

($ in millions)

Company	Equity Value[1]	Total Enterprise Value ("TEV")[2]	TEV / Total Revenue LTM	TEV / Total Revenue 2003E	TEV / EBITDA LTM	TEV / EBITDA 2003E	TEV / EBIT LTM	TEV / EBIT 2003E	Price / EPS[3] LTM	Price / EPS[3] 2003E	Price / EPS[3] 2004E	Long-Term Growth Rate[3]	2003E PEG[4]	TEV / Adjusted Member[5]
Anthem, Inc.[6]	$10,659	$12,420	0.8x	0.8x	8.8x	9.3x	10.5x	9.6x	15.3x	14.9x	12.9x	15.6%	0.95x	$1,685
WellChoice[7]	2,794	2,840	0.6	0.5	7.5	7.7	8.3	8.6	14.6	14.5	12.6	13.8	1.05	834
WellPoint Health Networks Inc.[8]	12,566	13,729	0.7	0.7	9.1	8.4	10.0	9.2	16.3	14.7	12.9	15.2	0.97	1,474
Maximum			**0.8x**	**0.8x**	**9.1x**	**9.3x**	**10.5x**	**9.6x**	**16.3x**	**14.9x**	**12.9x**	**15.6%**	**1.05x**	
Mean			**0.7**	**0.7**	**8.5**	**8.4**	**9.6**	**9.1**	**15.4**	**14.7**	**12.8**	**14.9**	**0.99**	
Minimum			**0.6**	**0.5**	**7.5**	**7.7**	**8.3**	**8.6**	**14.6**	**14.5**	**12.6**	**13.8**	**0.95**	

(1) Based on fully diluted shares outstanding.
(2) Total Enterprise Value = Equity Value + Debt + Minority Interest + Preferred Securities.
(3) Source: FactSet; stock prices and I/B/E/S mean estimates as of close on 10/20/2003.
(4) 2003E PEG = (Stock Price / 2003E EPS) / I/B/E/S Mean Long-Term Growth Rate.
(5) Adjusted Member = Commercial + Medicare + .75 Medicaid + .2 (Medicare Supplement + Government + ASO). Excludes specialty members.
(6) For the six months ended June 30, 2003, net income excludes $24.5 million favorable adjustment for resolution of litigation in 2003 and $1.0 million loss on sale of subsidiary operations.
(7) For the year ended December 31, 2002, income tax expense was adjusted to a tax rate of 42.0%. Net income for the year ended December 31, 2002, excludes a gain of $8.0 million resulting from insurance settlements related to the Company's WTC headquarters, a gain of $5.4 million related to the recovery of amounts previously recorded against net income, a gain of $13.7 million related to net litigation reserve activity, a restructuring charge of $13.7 million, a gain of $19.3 million resulting from settlement of WTC claims, and conversion and IPO expense of $15.4 million. For the three months ended March 31, 2002, tax rate was adjusted to equal tax rate for the three months ended March 31, 2003. For the six months ended June 30, 2002, tax rate was adjusted to equal tax rate for the six months ended June 30, 2003. For the six months ended June 30, 2002, net income excludes a gain of $8.0 million resulting from insurance settlements related to the Company's WTC headquarters, a gain of $2.4 million related to the recovery of amounts previously recorded against net income, a gain of $1.9 million on interest received on outstanding hospital advances previously considered uncollectible, and IPO expense of $3.6 million.
(8) For the year ended December 31, 2002, net income excludes $64.9 million gain on investment in Trigon Healthcare, Inc. stock, $9.0 million gain from negative goodwill on an acquisition, and $3.8 million loss on early extinguishment of debt. For the six months ended June 30, 2002, net income excludes $4.0 million gain from negative goodwill on an acquisition.

IV. Preliminary Valuation Analysis

SELECTED COMPARABLE PUBLICLY TRADED COMPANIES – REGIONAL NON-BCBS MANAGED CARE COMPANIES

Potential IPO investors may also analyze regional non-BCBS managed care companies, which are currently trading at approximately 13.0x 2003E EPS and 11.5x 2004E EPS.

($ in millions)

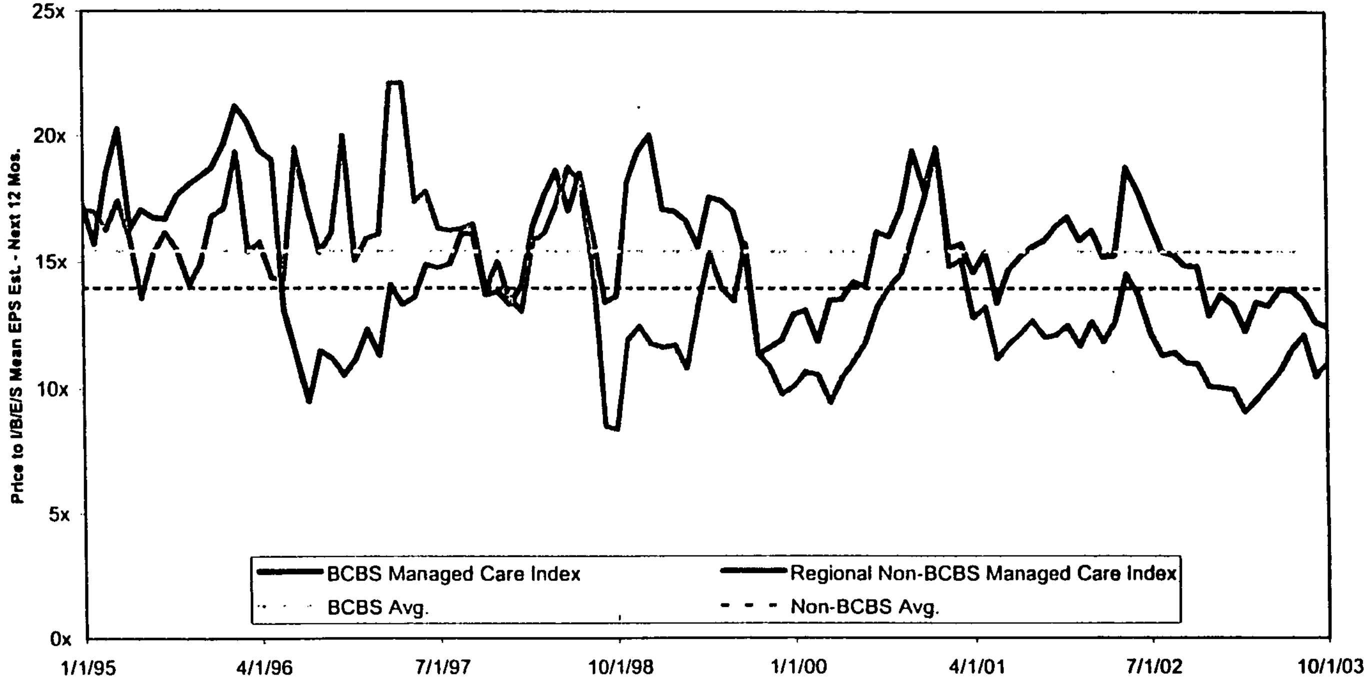
Company	Equity Value[1]	Total Enterprise Value ("TEV")[2]	TEV / Total Revenue		TEV / EBITDA		TEV / EBIT		Price / EPS[3]			Long-Term Growth Rate	2003E PEG[4]	TEV / Adjusted Member[5]
			LTM	2003E	LTM	2003E	LTM	2003E	LTM	2003E	2004E			
Coventry Health Care, Inc.	$3,478	$3,653	0.9x	0.8x	11.0x	8.8x	11.6x	9.3x	18.0x	14.0x	12.1x	15.5%	0.90x	$2,112
Health Net, Inc.[6]	3,933	4,332	0.4	0.4	7.6	7.1	8.7	7.9	13.2	12.5	11.0	13.8	0.90	1,343
Humana Inc.[7]	3,190	3,789	0.3	0.3	8.3	7.8	11.2	10.2	16.4	13.2	12.0	13.0	1.02	1,014
Mid Atlantic Medical Services, Inc.	2,790	2,794	1.1	1.0	12.9	11.4	13.7	12.0	20.9	15.0	13.1	14.4	1.04	1,420
Oxford Health Plans, Inc.[8]	3,717	4,124	0.8	0.8	6.6	6.4	6.9	6.7	11.5	10.4	9.3	12.8	0.81	2,717
Maximum			1.1x	1.0x	12.9x	11.4x	13.7x	12.0x	20.9x	15.0x	13.1x	15.5%	1.04x	
Mean			0.7	0.7	9.3	8.3	10.4	9.2	16.0	13.0	11.5	13.9	0.94	
Minimum			0.3	0.3	6.6	6.4	6.9	6.7	11.5	10.4	9.3	12.8	0.81	

(1) Based on fully diluted shares outstanding.
(2) Total Enterprise Value = Equity Value + Debt + Minority Interest + Preferred Securities.
(3) Source: FactSet; stock prices and I/B/E/S mean estimates as of close on 10/20/2003.
(4) 2003E PEG = (Stock Price / 2003E EPS) / I/B/E/S Mean Long-Term Growth Rate.
(5) Adjusted Member = Commercial + Medicare + .75 Medicaid + .2 (Medicare Supplement + Government + ASO). Excludes specialty members.
(6) For the year ended December 31, 2002, net income excludes $60.4 million asset impairment and restructuring charges and $5.0 million net loss on assets held for sale and sale of businesses and properties. For the six months ended June 30, 2002, net income excludes $2.6 million loss on assets held for sale, and $8.9 million charge for cumulative effect of a change in accounting principle, net of tax.
(7) For the year ended December 31, 2002, net income excludes $35.1 million restructuring charge. For the six months ended June 30, 2002, net income excludes $30.8 million restructuring charge and $30.1 million in expenses from dispute associated with previous acquisition.
(8) For the year ended December 31, 2002, net income excludes $151.3 million litigation charge, $11.4 million impairment charge related to the Company's investment in MedUnite, $15.5 million in termination fees and a non-cash asset impairment charge attributable to the termination of the CSC agreement, $20.0 million in legal expenses related to securities class action litigation. For the six months ended June 30, 2002, net income excludes $15.5 million in termination fees and a non-cash asset impairment charge attributable to the termination of the CSC agreement. For the six months ended June 30, 2003, net income excludes $45.0 million litigation settlement charge.

IV. Preliminary Valuation Analysis

HISTORIC P/E MULTIPLE

Since 1995, BCBS companies[1] have generally traded at a premium multiple compared to regional non-BCBS managed care companies[2] (average multiple of 15.4x vs. 13.9x). BCBS companies are currently trading slightly below their long-term average P/E multiple.



(1) Includes RightCHOICE, WellPoint, Anthem, Trigon, Cobalt, and WellChoice (index weighted by market capitalization).
(2) Includes Coventry, Health Net, Humana, MAMSI, and Oxford Health (index weighted by market capitalization).

IV. Preliminary Valuation Analysis

IPO DISCOUNTS

The IPO discounts in precedent BCBS conversions have been on average 28% and 32% based on one-year forward and two-year forward P/E multiples, respectively. Given the IPO discount, the Foundation may desire to sell relatively fewer shares in the IPO.

	One-Year Forward			Two-Year Forward		
	P/E Ratio – Company[1]	P/E Ratio – Comparables[2]	P/E Discount to Comparables[2]	P/E Ratio – Company[1]	P/E Ratio – Comparables[2]	P/E Discount to Comparables[2]
Anthem	12.1x	15.7x	(23%)	10.4x	13.5x	(23%)
Trigon Healthcare	9.6	12.3	(22)	8.2	11.3	(27)
RightCHOICE Managed Care	8.4	16.9	(50)	6.0	14.4	(58)
WellPoint Health Networks	14.4	19.6	(27)	11.9	15.3	(22)
WellChoice[3]	13.7	16.9	(19)	11.4	16.1	(29)
Maximum	**14.4x**	**19.6x**	**(50%)**	**11.9x**	**16.1x**	**(58%)**
Mean	**11.6**	**16.3**	**(28)**	**9.6**	**14.1**	**(32)**
Minimum	**8.4**	**12.3**	**(19)**	**6.0**	**11.3**	**(22)**

Source: Goldman Sachs.
[1] Ratios calculated by dividing IPO price by first-available I/B/E/S estimates.
[2] Comparable universe consists of Aetna, CIGNA, Coventry, Health Net, Mid Atlantic Medical Services, Oxford Health Plans, PacifiCare, Sierra Health Services, and United Health Plans, as well as companies in the analysis that were public at the appropriate time.
[3] WellChoice was added to the original Goldman Sachs analysis and calculated by dividing IPO price ($25) by first-available I/B/E/S estimate ($1.83 and $2.20 on 1/16/2003). Comparable universe consisted of public Blue Cross Blue Shield companies.

IV. Preliminary Valuation Analysis

ILLUSTRATIVE EQUITY VALUE

Outlined below is an illustrative range of IPO values based on various fully seasoned P/E multiple and percentage IPO discount assumptions. The value of the Company at the time of the IPO could be materially different from the range presented due to, among other things, conditions in the equity capital markets, prospects for the Company's performance, state of the regulatory environment, and macroeconomic factors.

Proprietary Material Redacted

(1) Implied equity value for the Company presented only for illustrative purposes and is not any indication whatsoever as to Blackstone's opinion as to the fair value of the Company. The matrix above indicates the range of values for the equity in Premera owned by the Foundation at the time of the IPO. This hypothetical value assumes that no primary shares are sold in the IPO and no underwriting commissions have been deducted.

(2) PROPRIETARY MATERIAL REDACTED

IV. Preliminary Valuation Analysis

PERFORMANCE OF INITIAL PUBLIC OFFERINGS OF BCBS COMPANIES

In the aftermarket, the BCBS stocks usually perform well on a relative basis; these stocks outperform the market by 7% and 42% on average at 15 and 180 days, respectively, after the IPO. This would reinforce the belief that the Foundation should potentially sell less stock in the IPO.

		7-Day Performance		15-Day Performance		180-Day Performance		1-Year Performance	
	IPO Date	Absolute	Relative[1]	Absolute	Relative[1]	Absolute	Relative[1]	Absolute	Relative[1]
Anthem	10/29/2001	14%	15%	28%	22%	96%	97%	83%	100%
RightCHOICE	8/1/1994	15	15	6	5	28	26	18	(3)
Trigon	1/31/1997	37	36	26	23	84	62	91	66
WellChoice	11/7/2002	9	10	3	(0)	(5)	(8)	NA	NA
WellPoint	1/27/1993	(10)	(10)	(11)	(12)	(16)	(18)	(14)	(24)

Maximum	**37%**	**36%**	**28%**	**23%**	**96%**	**97%**	**91%**	**100%**
Mean	**13**	**13**	**10**	**7**	**38**	**32**	**44**	**35**
Minimum	**(10)**	**(10)**	**(11)**	**(12)**	**(16)**	**(18)**	**(14)**	**(24)**

[1] Relative to the S&P 500 Index.

IV. Preliminary Valuation Analysis

IPO MONITORING

Prior to and during Premera's initial public offering process, Blackstone would take the following steps, among others, to assess and monitor several areas:

- Review the Form S-1 Registration Statement to be filed with the United States Securities and Exchange Commission (the "SEC") and any correspondence between the Company and the SEC with respect thereto;
- Review the Company's preliminary prospectus ("Preliminary Prospectus") to be prepared in connection with the IPO;
- Review or discuss with the Company, the underwriters and/or their respective counsel, the nature and scope of any anticipated changes from the Preliminary Prospectus to the final prospectus to be delivered to purchasers of common stock in the IPO;
- Review draft copies of the underwriting agreement and the agreements among underwriters, and discuss with the underwriters the nature and scope of any anticipated changes from the drafts reviewed to the final documents to be executed;
- Review copies of the filings to be made with the National Association of Securities Dealers, Inc. by the underwriters;
- Review with the Company and the underwriters the proposed strategy for presenting the Company to potential investors in the IPO and attend certain final versions of the presentation to investors (the "Roadshow");
- Review (i) the marketing materials to be presented in the Roadshow, (ii) the Roadshow schedule for the IPO, (iii) lists of Roadshow invitees and attendees for both group and one-on-one presentations, and (iv) the underwriters' lists of the syndicate and selling group expected for the sale of shares in the IPO;
- Discuss from time to time with the underwriters the state of the equity and initial public offering markets and the progress of the IPO;
- Review the performance of United States stock markets in the period leading up to the IPO (i) in general, (ii) with regard to selected publicly traded managed care companies, and (iii) with regard to initial public offerings priced during the period reviewed;
- Review the post-IPO price performance of managed care initial public offerings;
- Meet with the Company's senior management and the underwriters prior to the pricing committees' final meeting, where the final terms, conditions and price of the IPO would be discussed and agreed upon by the pricing committees and the underwriters; and
- Perform such other procedures, review such other documents, and be provided such other access to the IPO process as we would deem appropriate for the delivery of an opinion.

V. Observations on the Transaction Documents

VOTING TRUST AND DIVESTITURE AGREEMENT

The following compares selected provisions of Premera's Voting Trust and Divestiture Agreement with the provisions from the Voting Trust and Divestiture Agreements for other recent conversions,[1] including WellChoice.

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Divestiture Provisions (Section 7.01 – 7.06)	■ 1 year after completion of the IPO, Foundation must own less than 80% of outstanding stock. ■ 3 years after completion of the IPO, Foundation must own less than 50% of outstanding stock. ■ 6 years after completion of IPO, Foundation must own less than 5% of outstanding stock.	■ Premera's agreement currently contemplates a faster required exit period over the long term: WellChoice allowed its Fund to own less than 20% after five years and less than 5% after 10 years.
Payment for Trustee Services (Section 9.02 – 9.03)	■ Paid by the Company prior to the IPO as provided in a predetermined fee schedule; paid by the Foundation thereafter.	■ WellChoice's and BCBSNC's[2] recent agreements have indicated that the Company will pay this according to a predetermined fee schedule both prior to and after an IPO. RightCHOICE's and Cobalt's agreements stipulated that the Foundation and the Company shall compensate the Trustee according to a predetermined schedule.
Indemnification of Trustee (Section 9.06)	■ The Foundation indemnifies the Trustee from all claims relating to or arising out of the agreement except to the extent that such claim results from the Trustee's gross negligence or willful misconduct.	■ This provision is comparable to WellChoice, RightCHOICE, Cobalt and WellPoint, but in the BCBSNC[2] agreement the Company indemnified the Trustee except in certain instances where the basis of the claim resulted from instructions given by the Foundation.

[1] Based upon review of Voting Trust and Divestiture Agreements relating to the plan of conversion for BCBSNC, Cobalt, RightCHOICE, WellChoice, and WellPoint.
[2] BCBSNC based on second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.

V. Observations on the Transaction Documents

VOTING TRUST AND DIVESTITURE AGREEMENT (CONT'D)

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Change-of-Control Proposal and Consultation Rights (Section 4.02 – 4.03, Section 6.03)	■ Voting: For any change-of-control proposal, Trustee votes in accordance with the recommendation of the Independent Board Majority. ■ Consultation: So long as Foundation owns at least 50% of stock, Company must consult with Foundation prior to entering into a definitive agreement regarding an acquisition proposal or change-of-control proposal.	■ All the reviewed agreements[1] stipulate the Trustee will vote as the Foundation or Fund directs in a change-of-control proposal submitted by the Board. ■ In addition, these same agreements[1] provide that the Company must consult with the Foundation regarding a change-of-control proposal as long as the Foundation / Fund owns at least 20%.
Observation Rights / Board Representation	■ None.	■ The WellChoice agreement provides that as long as the Fund beneficially owns 20% or more of the issued and outstanding shares of capital stock, the Fund, through an authorized representative, shall have the limited right to attend and observe all meetings of the board, including all executive sessions. ■ Additionally, WellChoice was allowed to nominate one board member as long as the Fund owned at least 5%.
Standstill Provisions (Section 5.06 – 5.07)	■ Foundation prohibited from, among other things: • Becoming a participant in any solicitation of proxies from shareholders. • Calling any special meeting of shareholders. • Soliciting or endorsing any shareholder proposals to the Company.	■ While the WellChoice Foundation had a standstill, the agreement did not prohibit the Foundation from calling any special meeting of shareholders. ■ In addition, WellPoint's Voting Trust and Divestiture Agreement did not contain a provision restricting solicitation of a transaction.

[1] Based upon review of Voting Trust and Divestiture Agreements relating to the plan of conversion for BCBSNC, Cobalt, RightCHOICE, WellChoice, and WellPoint. BCBSNC based on second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.

V. Observations on the Transaction Documents

REGISTRATION RIGHTS AGREEMENT

The following compares selected provisions of Premera's Registration Rights Agreement with the provisions from the Registration Rights Agreements for other recent conversions.[1] In many cases, the Form A description of the registration rights agreement is silent on various provisions.

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Demand Registration Rights (Section 2(a))	■ Commencing 1 day from the date of the offering, any and all of the time until all stock is sold.	■ BCBSNC[2] and WellChoice stipulated these rights began 180 days after the offering and BCBSNC[2] suggested that these rights would be terminated if the Foundation did not sell its shares according to the Voting Trust and Divestiture Agreement. ■ RightCHOICE, Cobalt, and WellPoint allowed provisions similar to those of Premera.
Exceptions: Company not Required to Register (Section 2(d))	■ If a demand registration occurred during preceding 180 days. ■ If a demand registration has been previously effected during calendar year in which demand was received. ■ If Company effected a registration (i.e., not a demand registration) during preceding 180-day period (with such exceptions as dividend reinvestment plans). ■ If number of securities has a market value of less than $30 million (unless this is all that remains of the foundation's holdings).	■ In virtually every term, Premera's provisions are more stringent than those in other recent conversions. • WellChoice, RightCHOICE, Cobalt, and BCBSNC[2] provide an exception if a demand registration occurred during preceding 120 days. • WellChoice and BCBSNC[2] restrict a registration only if two demand registrations occur in a calendar year.[3] ■ RightCHOICE, Cobalt, WellPoint, BCBSNC[2], and WellChoice provide an exception also if the Company effects a registration in the preceding 120-day period (WellChoice's exemption is a 90-day period).

(1) Based upon review of registration rights agreements relating to the plan of conversion for BCBSNC, Cobalt, RightCHOICE, WellChoice, and WellPoint.
(2) BCBSNC based on second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.
(3) WellChoice's exemption stipulates that the company would not be required to register if there were two demand registrations effected during a calendar year for the first 42 months following the offering. In addition, for the period commencing 42 months after the IPO, the company would not be required if one demand registration was previously effected during a calendar year.

V. Observations on the Transaction Documents

REGISTRATION RIGHTS AGREEMENT (CONT'D)

Provision	Premera	Selected Comments Based on Other Recent Agreements [1]
Rule 144 (Section 12)	■ Sales by Foundation under Rule 144 are not available until Foundation has sold registrable stock and received in exchange therefor aggregate proceeds of at least 25% of the outstanding capital stock of the Company.	■ The WellChoice and WellPoint agreements state that sales by Fund and Foundation under Rule 144 are available. ■ The BCBSNC[2] agreement states that sales by Foundation under Rule 144 are available, but not until the public float is $40 million. Both RightCHOICE and Cobalt set the threshold level at $50 million.
Private Placements (Section 13(a))	■ The Foundation may sell in private placement, but Company has option for 30 business days following written notice to buy all, but not less than all, at same price and on same terms.	■ The WellChoice and WellPoint agreements allow that the Fund and Foundation may sell in private placement with no option to buy on the part of the Company.
Holdback (Section 8(d))	■ During 30-day period after the registration is effected by Company for underwritten demand offering by Foundation, Company will not sell any stock or security convertible into stock, except for such reason as registration for dividend reinvestment plan.	■ Both WellChoice and WellPoint are consistent with the Premera agreement but restrict the Company from selling securities for a 90-day period after any underwritten registration becomes effective.[3]

(1) Based upon review of registration rights agreements relating to the plan of conversion for BCBSNC, Cobalt, RightCHOICE, WellChoice, and WellPoint.
(2) BCBSNC based on second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.
(3) WellPoint also restricts the Company from selling securities during the 30 days prior to the effective date of an underwritten registration.

V. Observations on the Transaction Documents

SELECTED MANAGEMENT EQUITY COMPENSATION PLANS

Premera is reserving 7% of its notionally allocable shares for grants to officers, employees, and directors. Blackstone has reviewed Premera's equity compensation guidelines with the plans for six other BCBS companies and nine other life insurance demutualization transactions for benchmarking purposes.

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Shares Reserved (% of Total Shares Outstanding) (Exhibit G-10(1))	■ Not more than 7% during first 24 months after the conversion.	■ An average of five BCBS companies indicated 6.8% of total shares outstanding are reserved for equity compensation for management (low of 4.6% for WellPoint).[2] ■ For all conversion transactions including both life demutualization BCBS conversions, the average is 7.0% of total shares outstanding.[2]
Broad Based Grant (Exhibit G-10(3)(b)(i))	■ Not more than 1.5% for non-officers in a one-time option grant.	■ There has been precedent in prior life demutualizations for the establishment of a broad-based grant. Specifically, the Principal and Prudential conversions included a one-time broad-based stock option grant of 1% and 2%, respectively.
Prohibition on Issuance for Officers and Directors (Exhibit G-10(3))	■ No stock grants for 1 year. ■ Are allowed to make option grants up to 2.8% of total shares outstanding in the first year.	■ Three BCBS companies (Trigon, RightCHOICE, and Cobalt) had no restrictions on the first grant for officers and directors. ■ WellPoint's compensation plan required the approval from shareholders and the California Department of Corporations, and Anthem's term allowed the first grant after six months. ■ WellChoice was prohibited from issuing a plan for 1 year, which means that no employees, including officers and directors, could receive options for at least one year. ■ All prior life demutualizations analyzed did include a prohibition on the issuance of stock and options to officers and directors for at least a period of six months after the IPO. Many of these conversions (Prudential, Phoenix, MetLife, John Hancock and MONY) did not allow such grants for a period of one year after the IPO.

(1) Based upon review of management equity compensation plans in prior conversions of selected BCBS companies including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint and in prior conversions of selected prior demutualizations of non-BCBS companies including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

(2) Average based upon figures for selected BCBS companies, including Anthem, RightCHOICE, Trigon, WellChoice, and WellPoint and selected prior demutualizations, including AmerUS, John Hancock, MetLife, MONY, Principal, Prudential, and StanCorp.

V. Observations on the Transaction Documents

SELECTED MANAGEMENT EQUITY COMPENSATION PLANS (CONT'D)

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Maximum Individual Grant	■ Not in guidelines	■ Trigon, Cobalt, and WellPoint have restricted individual grants to 300,000, 250,000, and 150,000[2] shares, respectively, per year. RightCHOICE placed a limit of 20% on the aggregate authorized number of shares reserved. ■ The Prudential, Phoenix, and MetLife agreements stipulated a maximum individual grant of 5% of total shares available under the plan over a five-year period.
Maximum Term	■ Not in guidelines.	■ All prior conversions, including BCBS companies, instituted a maximum term of 10 years for the equity compensation program grants. Cobalt had a term of 10 years for incentive stock options and 12 years for non-qualified stock options.
Elective Stock Investments	■ Not in guidelines.	■ Trigon and Anthem had elective stock investment programs. Many of the other companies were silent about this term. ■ In the prior conversions excluding BCBS companies, Principal, StanCorp, and MONY instituted elective stock investment programs. Neither Principal nor StanCorp allowed senior officers to purchase stock under their respective stock purchase plans for six months after an IPO.

In its proposed guidelines, Premera did not disclose details of its proposed management equity compensation plan for many meaningful provisions, including but not limited to exercisability, maximum individual grants, minimum option price, cancellation and reissue of underwater options, payment for shares at exercise, and maximum option term. On October 17, 2003, the Company delivered to the OIC and its consultants a draft equity incentive plan, which is not reflected in our report.

(1) Based upon review of management equity compensation plans in prior conversions of selected BCBS companies including Anthem, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint and in prior conversions of selected prior demutualizations of non-BCBS companies including AmeriGroup, AmerUS, John Hancock, MetLife, MONY, Phoenix, Principal, Prudential, and StanCorp.

(2) WellPoint has indicated a maximum grant of 750,000 shares over a five-year period. The 150,000 share annual limitation has been calculated for comparative purposes.

V. Observations on the Transaction Documents

TAKEOVER DEFENSE

The following compares selected characteristics of Premera's takeover defenses with those of other BCBS companies (including the proposed takeover defenses for BCBSNC). In general, Premera's takeover defenses were in line with these companies, with a few potential exceptions.

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Blank-Check Preferred	■ Yes. (Articles of Incorporation: II – Section 1)	■ All included authority to issue blank-check preferred.
Staggered Board	■ Yes. (Articles of Incorporation: III – Section 3(b))	■ All included a staggered board.
Minimum Number of Directors	■ Seven. (Articles of Incorporation: III – Section 3(a))	■ On average the other BCBS companies reviewed required a minimum of more than nine directors. WellChoice required a minimum of five directors.
Ability to Consider Noneconomic Factors in Takeover	■ Yes. Allows consideration of such factors as per Chapter 23B.19 of the Revised Code of Washington	■ Six of the eight companies (Cobalt, BCBSNC[1], Cerulean, WellPoint, Trigon, and WellChoice) did not allow the ability to consider noneconomic factors in a takeover in their charter and by-laws.[4]
Removal of Directors	■ Only for cause[3]– 75% vote required. (Articles of Incorporation: III – Section 8)	■ Premera is generally in line with the comparables on this term (6 of 8 had the same provision). Anthem was silent with respect to this provision, and WellPoint allowed removal with or without cause.
Filling Vacancies on Board of Directors	■ Filled by the affirmative vote of a majority of the independent board members. (Articles of Incorporation: III – Section 7)	■ All other companies were generally consistent with this term, with some modifications.
Shareholders' Ability to Call a Special Meeting	■ Yes – upon written demand made by at least 25%[5] of all the votes entitled to be cast. (Articles of Incorporation: X)	■ Three of the eight companies (WellPoint, Cerulean and BCBSNC[2]) also allowed shareholders to call a special meeting. WellPoint and BCBSNC[1] allowed this upon written demand made by at least 10% of all the votes entitled to be cast.

[1] Based upon review of selected provisions of documents relating to prior conversions including Anthem, BCBSNC[2], Cerulean, Cobalt, RightCHOICE, Trigon, WellChoice, and WellPoint.
[2] Based on second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.
[3] *Cause* is defined as a breach by any Independent Director of the obligation to remain Independent throughout such person's term as a director; or as to any director, conviction of a felony, or commission of gross negligence or willful misconduct in the performance of the director's duty to the corporation in a matter of substantial importance to the corporation.
[4] Some of these companies may be allowed to consider non-economic factors under their respective state laws.
[5] The 25% threshold only applies until date of IPO.

V. Observations on the Transaction Documents

TAKEOVER DEFENSE (CONT'D)

Provision	Premera	Selected Comments Based on Other Recent Agreements[1]
Supermajority Voting Requirement for Amending Certain Provisions of Charter and Bylaws	■ 75%. (Bylaws: VII – Section 1)	■ Premera is generally inline with the other companies on this term. Seven of the eight companies (excluding Trigon) included a similar supermajority provision, and of the seven, all seven companies set the threshold level at 75%. ■ Anthem's supermajority provision only applies to the Charter and only the board of directors could amend the bylaws.
Stockholder Rights Plan	■ Yes (15% Trigger). (Exhibit G-6)	■ Seven of the eight companies (excluding Trigon) did not include a stockholder rights plan.[2]
Quorum Requirement for Shareholder Meeting	■ 50%. (Bylaws: I – Section 6)	■ Premera is generally in line with the comparables on this term. Seven of the eight companies (excluding Anthem) set the threshold requirement for a quorum in a shareholder meeting at a majority of shares entitled to vote (50%+1).
Other Acquisition Restrictions	■ Limitations on the ownership amount of certain classes of investors: Noninstitutional Investor[3] (5%); Institutional Investor (10%); any Person (20%). (Articles of Incorporation: IV – Section 2)	■ This provision was consistent with the policies of many of the companies reviewed and was identical to that of WellChoice. ■ In addition, Anthem and Cerulean[4] had supermajority provisions for the approval of a merger transaction at either the board or shareholder level.

(1) Based upon review of selected provisions of documents relating to prior conversions including Anthem, WellPoint, Trigon, Cerulean, RightCHOICE, Cobalt, WellChoice and BCBSNC. BSBCNC based on second amended and restated plan of conversion filed 9/30/02. BCBSNC has since withdrawn its plans for conversion.
(2) Aetna recently removed its shareholder rights plan.
(3) A *Noninstitutional Investor* is defined as any Person that is not an Institutional Investor.
(4) Cerulean had a supermajority provision that required the approval of two-thirds of the Continuing Directors, so long as stock is issued and outstanding.

The Blackstone Group®

October 27th, 2003

The Honorable Mike Kreidler
Washington State Insurance Commissioner
Office of Insurance Commissioner
Tumwater, Washington 98501

Dear Commissioner Kreidler:

Premera Blue Cross (the "Company") intends to convert from a Washington non-profit health service company into a for-profit stock company ("New PREMERA") (the "Conversion"). It is contemplated that the Conversion will be carried out pursuant to the Plan of Conversion as filed in the Form A Statement Regarding the Acquisition of Control of a Domestic Health Carrier and a Domestic Insurer on September 17, 2002 (the "Plan"). You have asked us whether, in our opinion, the proposed Plan, taken as a whole, is fair to policyholders, health care providers and the public, from a financial point of view. With your permission, we defer to PricewaterhouseCoopers as to the fairness of the proposed Plan, taken as a whole, to policyholders and health care providers. Capitalized terms used and not defined herein have the meanings given to them in the Plan.

The Plan provides, among other things, that (i) the Company will create a new for-profit subsidiary ("New PBC") to which the Company will transfer all its assets in exchange for 100% of New PBC stock; (ii) the Company will dissolve and distribute its assets (composed of 100% of the initial stock of New PBC) to PREMERA, its corporate member; (iii) PREMERA, a not-for-profit company, will create a new for-profit subsidiary, New PREMERA, to which PREMERA will transfer all its assets (composed of 100% of New PBC's stock) in exchange for 100% of New PREMERA's stock; and (iv) PREMERA will dissolve and distribute its assets (composed of 100% of the initial stock of New PREMERA) to a newly formed foundation established to fund support for health initiatives in Washington and Alaska (the "Foundation Shareholder"). After completion of the reorganization, the Foundation Shareholder would hold 100% of the initial stock of New PREMERA, representing the entire ownership interest of New PREMERA at the conclusion of the reorganization. The Foundation Shareholder's shares in New PREMERA would be sold in the public markets, subject to a divestiture schedule consistent with Blue Cross Blue Shield Association rules and pre-agreed terms established between New PREMERA and the Foundation Shareholder, with approval of the regulatory authorities. New PREMERA would have the right to issue and sell newly issued shares of New PREMERA, at its discretion, with proceeds going directly to New PREMERA to fund ongoing capital needs of the Premera companies.

We have, among other things:

- Reviewed a copy of the Plan;
- Reviewed the Company's audited historical financial statements for the years ended December 31, 1997 – 2002;
- Reviewed the Company's statutory historical financial statements for the years ended December 31, 1997 – 2002;
- Reviewed the Company's management projections for the years 2003 – 2007;
- Reviewed the Company's management revised financial outlook for 2003 – 2006;
- Reviewed minutes from meetings of the Company's board of directors for the years 1997 – 2003;
- Reviewed the Form A Statement Regarding the Acquisition of Control of a Domestic Health Carrier and a Domestic Insurer and transaction documents related to the Conversion, dated September 17, 2002;
- Reviewed presentations made by Goldman Sachs, including those dated September 10, 1997, November 12, 1997, September 9, 2000, May 24, 2001, August 8, 2001 and October 6, 2002;
- Reviewed drafts of the other consultant reports, including those of the State of Washington Office of Insurance Commissioner (the "OIC") and the Company;
- Reviewed certain other publicly available and internal information concerning the business, financial condition and operations of the Company that we believe to be relevant to our inquiry;
- Held discussions on many occasions with both the advisors to and the members of management of the Company concerning the Company and its business, operating environment, financial condition, prospects, and strategic objectives;
- Held discussions on many occasions with the OIC, the Alaska Division of Insurance and their other consultants, advisors and counsel concerning the Company and its business, operating environment, financial condition, prospects and strategic objectives;
- Analyzed the market performance of other conversions and initial public offerings in the health insurance industry;
- Analyzed the operating and trading statistics of selected publicly-traded managed care companies;
- Prepared and analyzed various sensitivities to management's projections; and
- Reviewed such other information, performed such other studies and analyses, and took into account such other matters as we deemed appropriate.

We have not, among other things:

- Independently verified the accuracy and completeness of financial and other information that is available from public sources and information provided to us by Premera or their respective representatives, or otherwise reviewed by us;

- Made an independent appraisal of Premera's surplus or assets or expressed any opinion as to either the value of such surplus or such assets or the value of the projected income and cash flow expected to be derived therefrom;
- Performed due diligence on Premera's physical properties, sales, marketing, distribution or service organizations, product markets, investment portfolio or on Premera's revised projections submitted to the OIC and its consultants on October 7, 2003 (background detail submitted on October 17, 2003);
- Incorporated the Company's management revised financial outlook for 2003-2006 into our analyses;
- Examined or incorporated any findings that may be part of documents deemed to be attorney-client privileged as determined by the Special Master's Decision Following In Camera Review of Documents (Docket No. G02-45);
- Considered any documents or analysis submitted by Premera after October 15, 2003;
- Considered any discussions with Premera or its advisors, which took place after October 15, 2003; and
- Expressed any Opinion, including as to the following:
    - The fair value of Premera;
    - The fair value of the public assets of Premera that serve health care needs in Washington; and
    - Whether the terms of the Transaction fairly distribute the value of the public assets.

We have identified several deficiencies in the Plan that should be addressed by the Company, which include, but are not limited to:

- Lack of demonstration of a clear need for the proposed amount of capital to be raised, which is between $100 million and $150 million, in the near to medium term and significant potential earnings dilution to the Foundation Shareholder resulting from an offering of such amount;
- Provisions of the Plan that are either incomplete or are not as attractive as those found in similar conversions, such as:
    - The plan contemplates a voting trust and divestiture agreement which includes the following terms:
        - The Independent Board Majority controls voting of the Foundation Shareholder's shares;
        - The Foundation Shareholder or the Trustee for the Foundation Shareholder does not have any ability to vote on a change of control proposal, significant corporate actions or management compensation plans;
        - The Foundation Shareholder does not have representatives or observers on the Company's board of directors, unlike certain precedent transactions in

    which the foundations' shareholders were given at least limited representation on their respective boards;

  - The divestiture provisions require that the Foundation Shareholder reduce its holding at a swifter rate over the long term than those similar provisions in prior conversions;

- The Plan contemplates a registration rights agreement which includes terms, such as the following, that in certain circumstances are more restrictive than those in precedent conversions, which gives the Foundation Shareholder less flexibility in determining the most appropriate time and method in which to dispose of its shares in the Company and may thereby inhibit the Foundation Shareholder's ability to optimize the value of its holdings when selling its shares;

  - The terms under which the Company would not be required to register the Foundation Shareholder's shares are generally broader than those provided in many precedent transactions;

  - Certain elements of the Company's purchase option, including the Company's option to buy back the Foundation Shareholder's stock prior to an initial public offering, may limit the Foundation Shareholder's ability to maximize the value of its holdings in the Company; and

  - The Foundation Shareholder is restricted from selling its shares of the Company under Rule 144 unless it has received 25% of the outstanding capital stock of the Company, unlike certain precedent transactions which did not have such similar restrictions;

- The Plan lacks a formal management equity plan and certain elements which would be found in such a plan are not addressed in the management equity plan guidelines submitted by the Company;

- The Company's officers, employees and directors are eligible for stock option grants immediately after conversion which do not require approval of shareholders or the Foundation Shareholder for the initial grants, unlike certain precedent conversions which prohibited all stock option grants to senior management and members of the board of directors for a certain period of time; and

- The Plan contemplates instituting a shareholder rights plan, unlike many precedent conversions, which did not have a shareholder rights plan.

Based on the foregoing, we are unable to opine that, as of the date hereof, the Plan, taken as a whole, is fair to the public from a financial point of view. This opinion is based on our review and analysis of the Plan in its entirety and as a whole and is subject to further consideration and evaluation to the extent that any of the terms and conditions of the Plan are amended, revised or otherwise changed from the date hereof.

Very truly yours,

The Blackstone Group L.P.

The Blackstone Group L.P.

The Blackstone Group®

October 27th, 2003

The Honorable Mike Kreidler
Washington State Insurance Commissioner
Office of Insurance Commissioner
Tumwater, Washington 98501

Dear Commissioner Kreidler:

Premera Blue Cross (the "Company") intends to convert from a Washington non-profit health service company into a for-profit stock company ("New PREMERA") (the "Conversion"). It is contemplated that the Conversion will be carried out pursuant to the Plan of Conversion as filed in the Form A Statement Regarding the Acquisition of Control of a Domestic Health Carrier and a Domestic Insurer on September 17, 2002 (the "Plan"). We have been informed by the State of Washington Office of Insurance Commissioner (the "OIC") and its legal representatives that an initial public offering, assuming that such offering is conducted in a manner that is consistent with customary and reasonable practices, satisfies the fair value test under the applicable Washington law regarding conversions. You have asked us for our thoughts on the parameters for evaluating the proposed initial public offering under the Plan (the "IPO") and the procedures that we intend to utilize to monitor the IPO. Capitalized terms used and not defined herein have the meanings given to them in the Plan.

The Plan provides, among other things, that (i) the Company will create a new for-profit subsidiary ("New PBC") to which the Company will transfer all its assets in exchange for 100% of New PBC stock; (ii) the Company will dissolve and distribute its assets (composed of 100% of the initial stock of New PBC) to PREMERA, its corporate member; (iii) PREMERA, a not-for-profit company, will create a new for-profit subsidiary, New PREMERA, to which PREMERA will transfer all its assets (composed of 100% of New PBC's stock) in exchange for 100% of New PREMERA's stock and (iv) PREMERA will dissolve and distribute its assets (composed of 100% of the initial stock of New PREMERA) to a newly formed foundation established to fund support for health initiatives in Washington and Alaska (the "Foundation Shareholder"). After completion of the reorganization, the Foundation Shareholder would hold 100% of the initial stock of New PREMERA, representing the entire ownership interest of New PREMERA at the conclusion of the reorganization. The Foundation Shareholder's shares in New PREMERA would be sold in the public markets, subject to a divestiture schedule consistent with Blue Cross Blue Shield Association rules and pre-agreed terms established between New PREMERA and the Foundation Shareholder, with approval of the regulatory authorities. New PREMERA would have the right to issue and sell newly issued shares of New PREMERA, at its discretion, with proceeds going directly to New PREMERA to fund ongoing capital needs of the Premera companies.

Blackstone has preliminarily examined the parameters and factors that would impact the IPO. We have, among other things:

- Reviewed the Company's audited historical financial statements for the years ended December 31, 1997 – 2002;
- Reviewed the Company's statutory historical financial statements for the years ended December 31, 1997 – 2002;
- Reviewed the Company's management projections for the years 2003 – 2007;
- Reviewed the Company's management revised financial outlook for 2003 – 2006;
- Examined selected publicly traded managed care companies;
- Reviewed the after market price performance of selected Blue Cross Blue Shield ("BCBS") companies since their respective initial public offering;
- Considered and analyzed the initial public offering discounts that were applied for selected recent BCBS conversions;
- Evaluated the current market conditions and recent trends for the equity capital markets and initial public offerings;
- Analyzed the historical trading parameters of stock market indices, selected BCBS managed care companies and selected non-BCBS managed care companies; and
- Reviewed such other information, performed such other studies and analyses, and took into account such other matters as we deemed appropriate.

At the time of the offering, Blackstone would update its analysis and would actively monitor the IPO process. In that connection, Blackstone would:

- Review the Form S-1 Registration Statement to be filed with the United States Securities and Exchange Commission (the "SEC") and any correspondence between the Company and the SEC with respect thereto;
- Review the Company's preliminary prospectus ("Preliminary Prospectus") to be prepared in connection with the IPO;
- Review or discuss with the Company, the underwriters and/or their respective counsel, the nature and scope of any anticipated changes from the Preliminary Prospectus to the final prospectus to be delivered to purchasers of common stock in the IPO;
- Review draft copies of the underwriting agreement and the agreements among underwriters, and discuss with the underwriters the nature and scope of any anticipated changes from the drafts reviewed to the final documents to be executed;
- Review copies of the filings to be made with the National Association of Securities Dealers, Inc. by the underwriters;
- Review with the Company and the underwriters the proposed strategy for presenting the Company to potential investors in the IPO and attend certain final versions of the presentation to investors (the "Roadshow");
- Review (i) the marketing materials to be presented in the Roadshow, (ii) the Roadshow schedule for the IPO, (iii) lists of Roadshow invitees and attendees for both group and one-on-one presentations and (iv) the underwriters' lists of the syndicate and selling group expected for the sale of shares in the IPO;
- Discuss from time to time with the underwriters the state of the equity and initial public offering markets and the progress of the IPO
- Review the performance of United States stock markets since January 3, 2000 (i) in general, (ii) with regard to selected publicly traded managed care companies and (iii) with regard to initial public offerings priced during the period reviewed;

- Review the post-IPO price performance of managed care initial public offerings;
- Meet with the Company's senior management and the underwriters prior to the pricing committees' final meeting where the final terms, conditions and price of the IPO would be discussed and agreed upon by the pricing committees and the underwriters; and
- Perform such other procedures, review such other documents and be provided such other access to the IPO process as we would deem appropriate for the delivery of an opinion.

A condition to effect the IPO would be an opinion from Blackstone or another independent investment bank stating that the procedures employed by the underwriters for the IPO of the Company in conducting the IPO pursuant to the Plan have been generally consistent with customary practices for initial public offerings, to the extent reasonably comparable to the IPO. Such opinion would be necessarily based upon the current customary practices for initial public offerings, to the extent reasonably comparable to the IPO, taking into account market, economic, financial and other conditions as they exist and can be evaluated on the date of the IPO.

Very truly yours,

The Blackstone Group L.P.

The Blackstone Group L.P.

C. Definition of Selected Terms

DCF	Discounted Cash Flow. Future cash flows multiplied by a discount factor to obtain a present value.
Debt / Capitalization Ratio	Total debt divided by the sum obtained by adding book value of shareholders' equity plus total debt plus preferred securities plus minority interest.
Depreciation	(1) Reduction in the book or market value of an asset. (2) Portion of an investment that can be deducted from taxable income.
EBIT	Earnings Before Interest and Taxes.
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization.
EPS	Earnings per Share of common stock.
Equity Value	Market value of the common stock of an entity.
GAAP	Generally Accepted Accounting Principles.
I/B/E/S	Institutional Brokers' Earnings System.
IPO	Initial Public Offering. A company's first public issuance of common stock.
LTM	Latest twelve months.
Medical Loss Ratio	Cost of care divided by total premium revenue.
Operating Income	Equal to premiums and fees minus the cost of health care costs and benefits, selling, general and administrative expenses, depreciation and amortization expense, and other operating expenses.
P/E Multiple	Represents the value determined by dividing an entity's stock price by its earnings per share.
S,G&A	Selling, General, and Administrative Expense (S,G&A Ratio equal to S,G&A divided by total revenue).
TEV	Total Enterprise Value. Equal to equity value plus debt, preferred stock, minority interest, and other long-term obligations.
YTD	Year to date.